HONG KONG MONETARY AUTHORITY
香港金融管理局

Our ref.: B1/15C
S4/16C
S5/1C

8 November 2016

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Returns MA(BS)1E, MA(BS)18 and MA(BS)23

I write to inform you that, after consultation with the two industry associations, we have revised the reporting templates and the Completion Instructions (CIs) for Returns MA(BS)1E, MA(BS)18 and MA(BS)23. The revised templates and CIs will take effect from 1 January 2017.

The revisions to Return MA(BS)1E are primarily to allow category 1 institutions to use a lower outflow rate of 3% when calculating the expected cash outflows arising from "stable retail deposits" and other similar outflow items for the purposes of the Liquidity Coverage Ratio. Some consequential amendments reflecting the recent revision of SPM module LM-1 and the expiry of the transitional arrangements have also been made.

The revisions in respect of Returns MA(BS)18 and MA(BS)23 are mainly to reflect changes in the frequency of required reporting, with a view to reducing Authorized Institutions' reporting burden.

The revised reporting templates and the CIs are provided in Annex 1 to Annex 3 of this letter. The updated electronic files containing the returns will be available from the HKMA's supervisory communication website (http://www.stet.iclnet.hk) after reporting of the December 2016 position under the respective returns is completed.

If you have any questions about this circular, please feel free to contact Eric Ng (2878-8603), Eve Law (2878-1197) or Thomas Wong (2878-1219).

Yours sincerely,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Eureka Cheung)

K1

SECRET

under the Banking Ordinance

Co. No. MM YY CAT.

(For Official Use Only)

LIQUIDITY POSITION OF AN AUTHORIZED INSTITUTION

*** (HONG KONG OFFICE / UNCONSOLIDATED / CONSOLIDATED) BASIS**

For the month of.....

Name of Authorized Institution	Date of Submission
Is the institution designated by the Monetary Authority as a category 1 institution under rule 3 of the Banking (Liquidity) Rules (BLR)? [Yes / No *]	

* Delete where inapplicable.

The Banking Ordinance

Information requested in this Return is required under section 63(2) of the Banking Ordinance. The Return should be submitted to the Monetary Authority not later than 14 days after the last day of each calendar month, unless otherwise advised by the Monetary Authority.

Note : This Return is to be prepared in accordance with the Completion Instructions issued by the Monetary Authority (MA). An authorized institution designated by the MA as a category 1 institution, or not designated as such (in the case of a category 2 institution), must complete the relevant parts of the Return that are applicable to it.

We certify that:

1 This Return is, to the best of our knowledge and belief, correct.

2. For a category 1 institution, the Liquidity Coverage Ratio of the institution was at all times during the reporting period not less than that required under rule 4 of the BLR (or as varied under section 97K of the Banking Ordinance).

3. For a category 2 institution, the average Liquidity Maintenance Ratio of the institution during the reporting period was not less than that required under rule 7 of the BLR (or as varied under section 97K of the Banking Ordinance).

Chief Accountant	*Chief Executive*
Name	*Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

Name	*Telephone Number*

PART 1 – SUMMARY CERTIFICATE OF LIQUIDITY POSITION

(HK$'000)

(I)	**Summary of information on Liquidity Coverage Ratio (LCR)**	
	Month-end position	
1.1	Sum of level 1 assets, level 2A assets and level 2B assets (before deductions)	0
1.2	Total weighted amount of HQLA (after deductions)	0
1.3	Total expected cash outflows	0
1.4	Total expected cash inflows (before application of 75% inflow ceiling)	0
1.5	Total expected cash inflows (after application of 75% inflow ceiling)	0
1.6	Total net cash outflows	0
1.7	LCR (month-end) (%)	#DIV/0!
	Additional information	
1.8	Lowest LCR during the reporting period (%)	
1.9	Lowest level of HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before application of 75% inflow ceiling) during the reporting period	

(II)	**Summary of information on Liquidity Maintenance Ratio (LMR)**	
	Month-end position	
2.1	Liquefiable assets	0
2.2	Qualifying liabilities (after deductions)	0
2.3	LMR (month-end) (%)	#DIV/0!
	Average position during the reporting period	
2.4	Liquefiable assets	0
2.5	Qualifying liabilities (after deductions)	0
2.6	LMR (average) (%)	#DIV/0!
2.7	**Lowest LMR during the reporting period (%)**	

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (I): Liquidity Coverage Ratio (Month-end position) **(HK$'000)**

A	HIGH QUALITY LIQUID ASSETS (HQLA)	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Level 1 assets**								
	(a) Currency notes and coins (re Banking (Liquidity) Rules (BLR) Schedule 2, Part 2, section 1(a))		100%	0					
	(b) Withdrawable central bank reserves (re BLR Schedule 2, Part 2, section 1(b))		100%	0					
	(c) Marketable debt securities that are issued or guaranteed by a sovereign, central bank, public sector entity, relevant international organization or multilateral development bank, or that are EF debt securities (re BLR Schedule 2, Part 2, section 1(c) & Part 3, section 1)		100%	0					
	(d) Marketable debt securities that are issued by the sovereign or central bank of a country and denominated in the local currency of that country, or that are EF debt securities (re BLR Schedule 2, Part 2, section 1(d) & Part 3, section 2)		100%	0					
	(e) Marketable debt securities that are issued by the sovereign or central bank of a country and denominated in a currency that is not the local currency of that country (re BLR Schedule 2, Part 2, section 1(e) & Part 3, section 3)		100%	0					
	(f) Total level 1 assets (before deductions) (= A1(a) + A1(b) + A1(c) + A1(d) + A1(e))	0		0	0	0	0	0	0
2	**Level 2A assets**								
	(a) Marketable debt securities that are issued or guaranteed by a sovereign, central bank or public sector entity (re BLR Schedule 2, Part 2, section 2(a) & Part 3, section 4)		85%	0					
	(b) Marketable debt securities issued by corporates (re BLR Schedule 2, Part 2, section 2(b) & Part 3, section 5)		85%	0					
	(c) Covered bonds (re BLR Schedule 2, Part 2, section 2(c) & Part 3, section 6)		85%	0					
	(d) Total level 2A assets (before deductions) (= A2(a) + A2(b) + A2(c))	0		0	0	0	0	0	0
3	**Level 2B assets**								
	(a) Marketable debt securities issued by corporates (re BLR Schedule 2, Part 2, section 3(a) & Part 3, section 7)		50%	0					
	(b) Approved RMBS (re BLR Schedule 2, Part 2, section 3(b) & Part 3, sections 8 & 9)		75%	0					
	(c) Total level 2B assets (before deductions) (= A3(a) + A3(b))	0		0	0	0	0	0	0
4	**Sum of level 1 assets, level 2A assets and level 2B assets (before deductions) (= A1(f) + A2(d) + A3(c))**	0		0	0	0	0	0	0
5	**Deduction: adjustments for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A and level 2B assets (as calculated in Section (II), Table 1, item 3)**			0					
6	**Deduction: foreign exchange haircuts (if BLR rule 37 is applicable) (as calculated in Section (II), Table 2, item 12)**			0		0	0	0	0
7	**TOTAL WEIGHTED AMOUNT OF HQLA (AFTER DEDUCTIONS) (= Max(A4 – A5 –A6,0))**			0					

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (I): Liquidity Coverage Ratio (Month-end position) **(HK$'000)**

B	TOTAL EXPECTED CASH OUTFLOWS arising from –	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Retail deposits taken by HK office**								
	(a) stable retail deposits			0					
	(b) less stable retail deposits		10%	0					
	(c) retail term deposits		5%	0					
2	**Retail deposits taken by overseas offices**								
	(a) stable retail deposits								
	(b) less stable retail deposits								
	(c) retail term deposits								
3	**Small business funding taken by HK office**								
	(a) stable small business funding			0					
	(b) less stable small business funding		10%	0					
	(c) small business term funding		5%	0					
4	**Small business funding taken by overseas offices**								
	(a) stable small business funding								
	(b) less stable small business funding								
	(c) small business term funding								
5	**Operational deposits**								
	(a) fully insured by an effective deposit insurance scheme (EDIS)			0					
	(b) not covered under sub-item B5(a)		25%	0					
	(c) *Memorandum item : Excess operational deposits (excluded from sub-item B5(a) or B5(b))*								
6	**Unsecured wholesale funding**								
	(a) (other than operational deposits) provided by corporates (other than small business customers), sovereigns, the MA for a/c of Exchange Fund, central banks, multilateral development banks and public sector entities								
	(i) amount entirely protected by EDIS		20%	0					
	(ii) not covered under sub-item B6(a)(i)		40%	0					
	(b) other than funding mentioned in item B3, B4, B5 or sub-item B6(a)		100%	0					
7	**Debt securities and prescribed instruments issued by the reporting institution and redeemable within the LCR period**		100%	0					
8	**Secured funding transactions (other than securities swap transactions), where the counterparty of the transaction is –**								
	(a) the MA for a/c of Exchange Fund (if the reporting institution is incorporated in HK), or the central bank of the country in which the reporting institution is incorporated		0%	0					

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (I): Liquidity Coverage Ratio (Month-end position) **(HK$'000)**

B	TOTAL EXPECTED CASH OUTFLOWS arising from –	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
	(b) the Government or a qualifying domestic public sector entity (if the reporting institution is incorporated in HK), the sovereign or a qualifying foreign public sector entity of the country in which the reporting institution is incorporated, or a multilateral development bank, and the transaction is collateralized by –								
	(i) level 1 assets		0%	0					
	(ii) level 2A assets		15%	0					
	(iii) approved RMBS		25%	0					
	(iv) level 2B assets that are not approved RMBS		25%	0					
	(v) assets that do not fall within any of paragraphs (i) to (iv)		25%	0					
	(c) an entity that does not fall within sub-item B8(a) or sub-item B8(b), and the transaction is collateralized by –								
	(i) level 1 assets		0%	0					
	(ii) level 2A assets		15%	0					
	(iii) approved RMBS		25%	0					
	(iv) level 2B assets that are not approved RMBS		50%	0					
	(v) assets that do not fall within any of paragraphs (i) to (iv)		100%	0					
9	**Securities swap transactions (as calculated in Section (II), Table 3)**	0		0	0	0	0	0	0
10	**Contractual net cash outflows arising from derivative contracts (as calculated in Section (II), Table 5, item 2(a))**	0		0	0	0	0	0	0
11	**Derivative contracts or other transactions with material adverse event clauses**		100%	0					
12	**Potential loss in market value of posted collateral securing derivative contracts or other transactions (as calculated in Section (II), Table 6)**	0		0	0	0	0	0	0
13	**Excess non-segregated collateral callable by counterparty under derivative contracts or other transactions**		100%	0					
14	**Collateral substitution under derivative contracts or other transactions (as calculated in Section (II), Table 7)**	0		0	0	0	0	0	0
15	**Contractual obligations to post collateral to counterparty under derivative contracts or other transactions (not otherwise covered in Section (I)B)**		100%	0					
16	**Increase in collateral needs arising from adverse changes in market value of derivative contracts or other transactions (approximated by calculation of "Value X")**		100%	0					
17	**Repayment of funding obtained from structured financial instrument issued by the reporting institution and redeemable within the LCR period**		100%	0					
18	**Obligations for repayment of maturing debt or provision of funding or assets arising from any embedded option in structured financing transactions**		100%	0					
19	**Potential drawdown of undrawn committed facilities (as calculated in Section (II), Table 8)**	0		0	0	0	0	0	0
20	**Contractual lending obligations not otherwise covered in Section (I)B (as calculated in Section (II), Table 9)**			0	0	0	0	0	0
21	**Other contingent funding obligations (whether contractual or non-contractual) (as calculated in Section (II), Table 10)**	0		0	0	0	0	0	0
22	**Other contractual cash outflows**		100%	0					
23	**TOTAL EXPECTED CASH OUTFLOWS (= B1 to B22)**			0	0	0	0	0	0

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (I): Liquidity Coverage Ratio (Month-end position) **(HK$'000)**

C	TOTAL EXPECTED CASH INFLOWS arising from -	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Secured lending transactions, where the reporting institution has re-hypothecated security obtained from the counterparty as collateral to cover the institution's short position in that security**		0%	0					
2	**Secured lending transactions (other than securities swap transactions) not covered in item C1, and the transaction is collateralized by –**								
	(a) level 1 assets		0%	0					
	(b) level 2A assets		15%	0					
	(c) approved RMBS		25%	0					
	(d) level 2B assets that are not approved RMBS		50%	0					
	(e) assets that do not fall within any of sub-items C2(a) to (d)								
	(i) for margin lending transactions		50%	0					
	(ii) for other secured lending transactions		100%	0					
3	**Securities swap transactions not included in item C1 (as calculated in Section (II), Table 4)**	0		0	0	0	0	0	0
4	**Secured and unsecured loans not otherwise covered in items C1, C2 and C3 –**								
	(a) Contractual cash inflows from revolving loans or loans without specific maturity date		0%	0					
	(b) Contractual cash inflows from loans (not covered in sub-item C4(a)) extended to-								
	(i) the MA for a/c of Exchange Fund or central banks		100%	0					
	(ii) financial institutions		100%	0					
	(iii) retail customers		50%	0					
	(iv) small business customers		50%	0					
	(v) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in paragraphs (i) to (iv)		50%	0					
5	**Release of balances maintained by the reporting institution in segregated accounts in accordance with requirements for protection of customer assets, where the customers are–**								
	(a) the MA for a/c of Exchange Fund, central banks or financial institutions		100%	0					
	(b) retail customers or small business customers		50%	0					
	(c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in paragraph (a) or (b)		50%	0					
6	**Maturing securities not included by the reporting institution in its HQLA**		100%	0					
7	**Undrawn facilities granted by other financial institutions**		0%	0					
8	**Operational deposits placed at other financial institutions**		0%	0					
9	**Contractual net cash inflows arising from derivative contracts (as calculated in Section (II), Table 5, item 2(b))**	0		0	0	0	0	0	0
10	**Other contractual cash inflows arising from assets, transactions or activities not otherwise covered in Section (I)C, to be received from –**								

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (I): Liquidity Coverage Ratio (Month-end position) **(HK$'000)**

C	TOTAL EXPECTED CASH INFLOWS arising from -	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
	(a) the MA for a/c of Exchange Fund or central banks		100%	0					
	(b) financial institutions		100%	0					
	(c) retail customers		50%	0					
	(d) small business customers		50%	0					
	(e) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in paragraphs (a) to (d)		50%	0					
11	**Total expected cash inflows (before application of 75% inflow ceiling) (=C1 to C10)**			0	0	0	0	0	0
12	**TOTAL EXPECTED CASH INFLOWS (after application of 75% inflow ceiling) (= Min(C11, 75%*B23)**			0					

D	LIQUIDITY COVERAGE RATIO (month-end position) (=A7 / (B23 - C12))	#DIV/0!

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 1 : Determination of adjustments for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A & level 2B assets **(HK$'000)**

		Weighted amount	Breakdown of weighted amount by currencies				
			HK$	US$	Other major currencies	RMB	Other currencies
1	**Adjustments without reversal of relevant securities financing transactions**						
	(a) Adjustment for 15% ceiling (on level 2B assets) = Max {A3(c) – 15/85*(A1(f) +A2(d)), A3(c) – 15/60*A1(f), 0}	0					
	(b) Adjustment for 40% ceiling (on sum of level 2A & level 2B assets) = Max {A2(d) + A3(c) – adjustment for 15% ceiling – 2/3*A1(f), 0}	0					
	(c) Sub-total (= 1(a) + 1(b))	0					
2	**Adjustments with reversal of relevant securities financing transactions (if any)**						
	(a) Adjustment for 15% ceiling (on level 2B assets) = Max {adjusted level 2B assets – 15/85*(adjusted level 1 assets + adjusted level 2A assets), adjusted level 2B assets –15/60* adjusted level 1 assets, 0}	0					
	(b) Adjustment for 40% ceiling (on sum of level 2A & level 2B assets) = Max {adjusted level 2A assets + adjusted level 2B assets – adjustment for 15% ceiling – 2/3*adjusted level 1 assets, 0}	0					
	(c) Sub-total (= 2(a) + 2(b))	0					
	Where –						
	(d) adjusted level 1 assets (= total weighted amount of level 1 assets adjusted for the reversal of any relevant securities financing transaction involving the exchange by the reporting institution of any level 1 asset, level 2A asset or level 2B asset for receipt by the institution from counterparty of any level 1 asset within the LCR period)						
	(e) adjusted level 2A assets (= total weighted amount of level 2A assets adjusted for the reversal of any relevant securities financing transaction involving the exchange by the reporting institution of any level 1 asset, level 2A asset or level 2B asset for receipt by the institution from counterparty of any level 2A asset within the LCR period)						
	(f) adjusted level 2B assets (= total weighted amount of level 2B assets adjusted for the reversal of any relevant securities financing transaction involving the exchange by the reporting institution of any level 1 asset, level 2A asset or level 2B asset for receipt by the institution from counterparty of any level 2B asset within the LCR period)						
3	**Max (1(c), 2(c))**	0					

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 2: Deduction from total HQLA - Calculation of additional adjustment due to foreign exchange haircuts (if BLR rule 37 is applicable) **(HK$'000)**

		Weighted amount					
		Total	**HK$**	**US$**	**Other major currencies**	**RMB**	**Other currencies**
1	Total level 1 assets (before deductions) (= Section (I), item A1(f))	0	0	0	0	0	0
2	Total level 2A assets (before deductions) (= Section (I), item A2(d))	0	0	0	0	0	0
3	Total level 2B assets (before deductions) (= Section (I), item A3(c))	0	0	0	0	0	0
4	Total HQLA (before deductions) (= Section (I), item A4)	0	0	0	0	0	0
5	Total expected cash outflows (= Section (I), item B23)	0	0	0	0	0	0
6	Total expected cash inflows (before application of 75% inflow ceiling) (= Section (I), item C11)	0	0	0	0	0	0
7	HKD LCR mismatch (= Max(item 13*(item 5 – item 6) – item 4,0))		0				
8	The part of item 7 that exceeds 25% of the reporting institution's HKD-denominated total net cash outflows (=Max(If (item 7 = 0, 0, item 7 – Max(item 5 – item 6,0)* Max(0,25% – (100% – item 13))),0)		0				
9	HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before adjustment for 75% inflow ceiling) (Note: Rule 37(d) is satisfied if item 9=/> 20%)	N/A					
10	Foreign currency-denominated HQLA (level 1 assets) exceeding foreign currency-denominated total net cash outflows (if any) (=Min(Max(Item 4 – Item 13*Max(item 5 – item 6,0),0),item 1))			0	0	0	0
11	Relevant portion of item 10 being used to cover HKD LCR mismatch			0	0	0	0
12	**Foreign exchange haircuts** **(%)**			2%	8%	10%	10%
	(HK$'000 equivalent)	**0**		0	0	0	0

13	Minimum required level of LCR applicable to the reporting institution (Note)	

(Note: Unless otherwise required by the HKMA, a category 1 institution should insert 60% for any reporting month within 2015, 70% for 2016, 80% for 2017, 90% for 2018 and 100% for and after 2019.)

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 3: Expected cash outflow arising from securities swap transactions **(HK$'000)**

	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Type of securities to be received by reporting institution from counterparty within the LCR period	Principal amount of securities to be delivered by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HK$	US$	Other major currencies	RMB	Other currencies
(a)	level 1 assets	level 1 assets		0%	0					
(b)	level 1 assets	level 2A assets		15%	0					
(c)	level 1 assets	approved RMBS		25%	0					
(d)	level 1 assets	level 2B assets that are not approved RMBS		50%	0					
(e)	level 1 assets	assets that are not level 1 assets, level 2A assets or level 2B assets		100%	0					
(f)	level 2A assets	level 2A assets		0%	0					
(g)	level 2A assets	approved RMBS		10%	0					
(h)	level 2A assets	level 2B assets that are not approved RMBS		35%	0					
(i)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets		85%	0					
(j)	approved RMBS	approved RMBS		0%	0					
(k)	approved RMBS	level 2B assets that are not approved RMBS		25%	0					
(l)	approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		75%	0					
(m)	level 2B assets that are not approved RMBS	level 2B assets that are not approved RMBS		0%	0					
(n)	level 2B assets that are not approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		50%	0					
(o)	assets that are not level 1 assets, level 2A assets or level 2B assets	assets that are not level 1 assets, level 2A assets or level 2B assets		0%	0					
		Total	0		0	0	0	0	0	0

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 4: Expected cash inflow arising from securities swap transactions **(HK$'000)**

	Type of securities to be received by reporting institution from counterparty within the LCR period	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Principal amount of securities to be received by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HK$	US$	Other major currencies	RMB	Other currencies
(a)	level 1 assets	level 1 assets		0%	0					
(b)	level 1 assets	level 2A assets		15%	0					
(c)	level 1 assets	approved RMBS		25%	0					
(d)	level 1 assets	level 2B assets that are not approved RMBS		50%	0					
(e)	level 1 assets	assets that are not level 1 assets, level 2A assets or level 2B assets		100%	0					
(f)	level 2A assets	level 2A assets		0%	0					
(g)	level 2A assets	approved RMBS		10%	0					
(h)	level 2A assets	level 2B assets that are not approved RMBS		35%	0					
(i)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets		85%	0					
(j)	approved RMBS	approved RMBS		0%	0					
(k)	approved RMBS	level 2B assets that are not approved RMBS		25%	0					
(l)	approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		75%	0					
(m)	level 2B assets that are not approved RMBS	level 2B assets that are not approved RMBS		0%	0					
(n)	level 2B assets that are not approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		50%	0					
(o)	assets that are not level 1 assets, level 2A assets or level 2B assets	assets that are not level 1 assets, level 2A assets or level 2B assets		0%	0					
		Total	0		0	0	0	0	0	0

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 5: Contractual net cash outflows and contractual net cash inflows arising from derivative contracts **(HK$'000)**

		Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Gross amount of cash flows (after collateral adjustments, if any)**								
	(a) Contractual cash outflows			0					
	(b) Contractual cash inflows			0					
2	**Net amount of cash flows**								
	(a) Contractual net cash outflows after adjustments (re Code of Practice, clause 12(3) & (4))		100%	0					
	(b) Contractual net cash inflows after adjustments (re Code of Practice, clause 30(3) & (4))		100%	0					

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 6: Expected cash outflow arising from potential loss in market value of posted collateral securing derivative contracts or other transactions **(HK$'000)**

		Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	Collateral (other than level 1 assets) posted by the reporting institution to counterparties under derivative contracts or other transactions (***posted collateral***)								
2	Collateral (other than level 1 assets) received by the reporting institution from the same counterparties under derivative contracts or other transactions that can be deducted from item 1 (***received collateral***)								
3	**Net amount of posted collateral (= Max (item 1 – item 2), 0)**	**0**	**20%**	**0**					

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 7: Expected cash outflow arising from collateral substitution under derivative contracts or other transactions **(HK$'000)**

	Type of collateral posted to reporting institution by counterparty	Type of assets that may be posted by counterparty to reporting institution for collateral substitution	Principal amount of collateral held by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HK$	US$	Other major currencies	RMB	Other currencies
(a)	level 1 assets	level 1 assets		0%	0					
(b)	level 1 assets	level 2A assets		15%	0					
(c)	level 1 assets	approved RMBS		25%	0					
(d)	level 1 assets	level 2B assets that are not approved RMBS		50%	0					
(e)	level 1 assets	assets that are not level 1 assets, level 2A assets or level 2B assets		100%	0					
(f)	level 2A assets	level 2A assets		0%	0					
(g)	level 2A assets	approved RMBS		10%	0					
(h)	level 2A assets	level 2B assets that are not approved RMBS		35%	0					
(i)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets		85%	0					
(j)	approved RMBS	approved RMBS		0%	0					
(k)	approved RMBS	level 2B assets that are not approved RMBS		25%	0					
(l)	approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		75%	0					
(m)	level 2B assets that are not approved RMBS	level 2B assets that are not approved RMBS		0%	0					
(n)	level 2B assets that are not approved RMBS	assets that are not level 1 assets, level 2A assets or level 2B assets		50%	0					
(o)	assets that are not level 1 assets, level 2A assets or level 2B assets	assets that are not level 1 assets, level 2A assets or level 2B assets		0%	0					
		Total	0		0	0	0	0	0	0

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 8: Expected cash outflow arising from potential drawdown of undrawn committed facilities **(HK$'000)**

		Principal amount of undrawn facility limits, net of HQLA collateral (if any)	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Committed credit facilities granted to –**								
	(a) retail customers		5%	0					
	(b) small business customers		5%	0					
	(c) corporates (other than small business customers), sovereigns, the MA for a/c of Exchange Fund, central banks, public sector entities or multilateral development banks		10%	0					
	(d) banks		40%	0					
	(e) financial institutions (other than banks)		40%	0					
	(f) other entities not falling within sub-items 1(a) to 1(e)		100%	0					
	(g) Sub-total (1)	0		0	0	0	0	0	0
2	**Committed liquidity facilities granted to –**								
	(a) retail customers		5%	0					
	(b) small business customers		5%	0					
	(c) corporates (other than small business customers), sovereigns, the MA for a/c of Exchange Fund, central banks, public sector entities or multilateral development banks		30%	0					
	(d) banks		40%	0					
	(e) financial institutions (other than banks)		100%	0					
	(f) other entities not falling within sub-items 2(a) to 2(e)		100%	0					
	(g) Sub-total (2)	0		0	0	0	0	0	0
3	**Total (1(g) + 2(g))**	**0**		**0**	**0**	**0**	**0**	**0**	**0**

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 9: Contractual lending obligations not otherwise covered in Section (I)B **(HK$'000)**

		Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	**Contractual lending obligations to the MA for a/c of Exchange Fund, central banks or financial institutions not otherwise covered in Section (I)B**		100%	0					
2	**Contractual lending obligations to –**								
	(a) retail customers		100%	0					
	(b) small business customers		100%	0					
	(c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in item 1, sub-item 2(a) or sub-item 2(b)		100%	0					
3	**Contractual cash inflows from secured or unsecured loans under item 4 of Section (I)C, to be received from –**								
	(a) retail customers (re Section (I)C, sub-item 4b(iii))			0					
	(b) small business customers (re Section (I)C, sub-item 4b(iv))			0					
	(c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in sub-item 3(a) or 3(b) and are not the MA for a/c of Exchange Fund, central banks or financial institutions (re Section (I)C, item 4b(v))			0					
4	**Contractual lending obligations to (if any) –**								
	(a) retail customers			0					
	(b) small business customers			0					
	(c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers), or any other persons not included in item 1, sub-item 2(a) or sub-item 2(b)			0					
5	**Total contractual lending obligations not otherwise covered in Section (I)B (= items 1 + 4(a) + 4(b) + 4(c))**			**0**	**0**	**0**	**0**	**0**	**0**

Part 2 – LIQUIDITY COVERAGE RATIO (to be reported by category 1 institutions only)

Section (II): Supplementary information

Table 10: Other contingent funding obligations **(HK$'000)**

		Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HK$	US$	Other major currencies	RMB	Other currencies
1	Trade-related contingencies (other than funding obligations arising from potential drawdown of committed credit facilities granted to corporates for import or export financing purposes)		3%	0					
2	Guarantees and letters of credit unrelated to trade-related contingencies		10%	0					
3	Uncommitted facilities		0%	0					
4	Non-contractual contingent funding obligations arising from –								
	(a) debt securities or structured financial instruments, in respect of which the reporting institution (or its associated entity) is the issuer, a market maker or a dealer, or has been involved as an originator, sponsor, marketing agent or seller, where there is a reasonable expectation that the obligations will materialize within the LCR period		100%	0					
	(b) money market funds or other types of collective investment funds marketed by the reporting institution (or its associated entity), where there is a reasonable expectation that the obligations will be materialized within the LCR period		100%	0					
	(c) situations in which customer short positions are covered by assets (that are not HQLA qualifying assets) received by the institution from its other customers as collateral, in respect of which the institution has the right of re-hypothecation, such that the institution may be obliged to provide funding within the LCR period to cover uncovered customer short positions in the event of withdrawal of the collateral by its other customers		50%	0					
	(d) potential liquidity drawn by an unconsolidated joint venture or entity in which the reporting institution has a minority interest, where there is a reasonable expectation that the institution will be the main liquidity provider when the joint venture or entity concerned is in need of liquidity (Note)			0					
	(e) circumstances not otherwise specified in sub-items 4(a) to (d), where there is a reasonable expectation that the obligations will materialize with the LCR period		100%	0					
5	**Total**	0		0	0	0	0	0	0

Note: If the reporting institution has reasonable expectation that a non-zero amount should be reported in sub-item 4(d), it must notify the HKMA in order to agree a methodology (including the outflow rate) for determining the amount to be reported. Otherwise, insert an outflow rate of 0% for this sub-item.

Part 3 – LIQUIDITY MAINTENANCE RATIO (to be reported by Category 2 institutions only)

(I) LIQUIDITY MAINTENANCE RATIO (Month-end position)

(HK$'000)

A. LIQUEFIABLE ASSETS		Principal amount	Liquidity conversion factor (%)	Weighted amount	Breakdown of weighted amount by currencies			
					HK$	US$	RMB	Other currencies
(A1)	Currency notes and coins		100	0				
(A2)	Gold bullion		90	0				
(A3)	Claims on, or reserves maintained with, the MA for a/c of the Exchange Fund or central banks that are repayable to the reporting institution overnight, on demand, or on notice which expires on the first day of the LMR period		100	0				
(A4)	Net due from banks of the reporting institution to be included in its liquefiable assets *(For completion by the reporting institution if its net due from banks ≥ 0)*							
	(a) Total one-month liabilities of other banks to the reporting institution			0				
	(b) Total one-month liabilities of the reporting institution to other banks			0				
	(c) Net due from banks (= (A4)(a) - (A4)(b) ≥ 0, subject to the weighted amount not exceeding 40% of the weighted amount of qualifying liabilities (before deductions). Any excess amount will be included under item (C3).)	0	80	0				
(A5)	Export bills –							
	(a) payable within 1 month and which are either drawn under letters of credit issued by banks or accepted and payable by banks		90	0				
	(b) covered by irrevocable re-discounting facilities approved by the MA		90	0				
(A6)	Marketable debt securities or prescribed instruments that are–							
	(a) issued or guaranteed by –							
	(i) the Government, the MA for a/c of Exchange Fund, or a domestic public sector entity with a remaining term to maturity of –							
	(A) not more than 1 year		100	0				
	(B) more than 1 year		95	0				
	(ii) an authorized institution incorporated in HK or the HK branch of an authorized institution incorporated outside Hong Kong with a remaining term to maturity of –							
	(A) not more than 1 month		100	0				
	(B) more than 1 month but not more than 1 year		95	0				
	(C) more than 1 year		90	0				

Part 3 – LIQUIDITY MAINTENANCE RATIO (to be reported by Category 2 institutions only)

(I) LIQUIDITY MAINTENANCE RATIO (Month-end position)

(HK$'000)

A. LIQUEFIABLE ASSETS	Principal amount	Liquidity conversion factor (%)	Weighted amount	Breakdown of weighted amount by currencies			
				HK$	US$	RMB	Other currencies
(b) issued or guaranteed by the central bank or central government of a country, a multilateral development bank, or a relevant international organization, where the debt security or instrument, or its issuer or guarantor, has a qualifying ECAI rating, and the remaining term to maturity is –							
(A) not more than 1 year		100	0				
(B) more than 1 year		95	0				
(c) with a qualifying ECAI issue specific rating, issued or guaranteed by –							
(i) a bank, other than those included in sub-item (A6)(a)(ii), with a remaining term to maturity of –							
(A) not more than 1 month		100	0				
(B) more than 1 month but not more than 1 year		95	0				
(C) more than 1 year		90	0				
(ii) a regional government of a country or other entity, with a remaining term to maturity of –							
(A) not more than 1 year		90	0				
(B) more than 1 year but not more than 5 years		85	0				
(C) more than 5 years		80	0				
(d) without a qualifying ECAI issue specific rating, issued or guaranteed by –							
(i) a bank, other than those included in sub-item (A6)(a)(ii), if –							
(A) the debt security or instrument has a remaining term to maturity of not more than 1 month; or		100	0				
(B) the bank has a qualifying ECAI issuer rating		80	0				
(ii) a regional government of a country which has a qualifying ECAI issuer rating –		80	0				
(e) not included elsewhere in item (A6), re-discountable with the MA for a/c of Exchange Fund, or the central bank of a country that has a qualifying ECAI issuer rating (where such re-discounting arrangement is available to the reporting institution)		80	0				

Part 3 – LIQUIDITY MAINTENANCE RATIO (to be reported by Category 2 institutions only)

(I) LIQUIDITY MAINTENANCE RATIO (Month-end position)

(HK$'000)

A. LIQUEFIABLE ASSETS		Principal amount	Liquidity conversion factor (%)	Weighted amount	Breakdown of weighted amount by currencies			
					HK$	US$	RMB	Other currencies
	(f) RMBS, other debt securities or instruments specifically approved for inclusion by the MA –							
	(i) RMBS		80	0				
	(ii) other debt securities or instruments		80	0				
	(g) not included elsewhere in item (A6) with a remaining term to maturity of not more than 1 month		80	0				
(A7)	Residential mortgage loans in respect of which there has been issued by The Hong Kong Mortgage Corporation Limited an irrevocable commitment to purchase which is approved by the MA		90	0				
(A8)	DEDUCTION FROM LIQUEFIABLE ASSETS: Debt securities or prescribed instruments with a remaining term to maturity of not more than 1 month issued by the reporting institution		100	0				
(A9)	LIQUEFIABLE ASSETS (=sum of (A1) to (A7) – (A8))			0				

B. QUALIFYING LIABILITIES		Principal amount	Liquidity conversion factor (%)	Weighted amount	Breakdown of weighted amount by currencies			
					HK$	US$	RMB	Other currencies
(B1)	Total one-month liabilities of the reporting institution to the MA for a/c of Exchange Fund or central banks		100	0				
(B2)	If the reporting institution's total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the institution's total one-month liabilities to other banks		100	0				
(B3)	Other one-month liabilities		100	0				
(B4)	QUALIFYING LIABILITIES (BEFORE DEDUCTIONS) (= sum of (B1) to (B3))			0				

Part 3 – LIQUIDITY MAINTENANCE RATIO (to be reported by Category 2 institutions only)

(I) LIQUIDITY MAINTENANCE RATIO (Month-end position)

(HK$'000)

	C. DEDUCTION FROM QUALIFYING LIABILITIES	Principal amount	Liquidity conversion factor (%)	Weighted amount	Breakdown of weighted amount by currencies			
					HK$	US$	RMB	Other currencies
(C1)	Total one-month liabilities of the MA for a/c of the Exchange Fund, or central banks to the reporting institution (other than the amount included in item (A3))		100	0				
(C2)	If the reporting institution's total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the total one-month liabilities of other banks to it		100	0				
(C3)	Weighted amount, if any, of the reporting institution's net due from banks exceeding the 40% cap referred to in BLR rule 48(7)			0				
(C4)	Eligible loan repayments		80	0				
(C5)	Sub-total (sum of items (C1) to (C4))			0				
(C6)	DEDUCTION FROM QUALIFYING LIABILITIES (limited by 75% of item (B4))			0				

D.	QUALIFYING LIABILITIES (AFTER DEDUCTIONS) (=(B4) – (C6))			0				

E.	LIQUIDITY MAINTENANCE RATIO (month-end) (= (A9) / (D))			#DIV/0!				

(II) AVERAGE LIQUIDITY MAINTENANCE RATIO DURING THE REPORTING PERIOD

		Weighted amount
A.	Average liquefiable assets	
B.	Average qualifying liabilities (before deductions)	
C.	Average qualifying liabilities (after deductions)	
D.	Average Liquidity Maintenance Ratio (= A / C)	#DIV/0!

Completion Instructions
Return of Liquidity Position of an Authorized Institution
Form MA(BS)1E

INTRODUCTION

1. This document sets out the Completion Instructions (CIs) for authorized institutions (AIs) to compile the above Return, which is used by the Monetary Authority (MA) to collect information from AIs on their liquidity ratios and related information. This document should be read in conjunction with –

   (i) the Banking (Liquidity) Rules (BLR), made by the MA under section 97H of the Banking Ordinance (BO) to prescribe liquidity requirements applicable to AIs. The BLR set out the requirements relating to the Liquidity Coverage Ratio (LCR) and the Liquidity Maintenance Ratio (LMR). The LCR is applicable to AIs designated by the MA as category 1 institutions under rule 3[1], whereas the LMR is applicable to other AIs that are not designated as category 1 institutions (i.e. category 2 institutions);

   (ii) the Banking (Liquidity Coverage Ratio – Calculation of Total Net Cash Outflows) Code (CoP) approved and issued under section 97M of the BO for the purposes of providing guidance on the calculation of "total net cash outflows", the denominator of the LCR;

   (iii) the statutory guideline ~~[~~*Regulatory Framework for Supervision of Liquidity Risk*~~]~~ (LM-1)[2] issued by the MA under the Supervisory Policy Manual (SPM), which sets out the MA's approach to supervising AIs' liquidity risk and provides supplementary guidance to AIs in respect of the LCR or LMR requirements applicable to them under the BLR; and

   (iv) the statutory guideline *Sound Systems and Controls for Liquidity Risk Management* (LM-2)[3] under the SPM, which sets out the MA's supervisory expectations on AIs' liquidity risk management systems.

   The terms used in this Return should, unless specified otherwise or the context requires otherwise, be ascribed to the meanings used in the BLR or CoP, as the case may be.

---

[1] Unless the context otherwise requires, a reference to a "rule" in these CIs means a rule in the BLR.

~~[2] This SPM module (which will be retitled as "Regulatory Framework for Supervision of Liquidity Risk") is being revised to elaborate on the requirements in the BLR and CoP relevant to the implementation of the LCR and LMR. The industry will be consulted on the proposed revisions.~~

~~[3] This SPM module is being revised to incorporate changes consequential to the implementation of the LCR and LMR and other refinements taking into account implementation experience.~~

2. This Return consists of 3 Parts:

(i) Part 1 summarises certain key information relating to the reporting institution's liquidity ratio. Most of the items in this Part are automatically generated from information reported in other Parts of this Return.

(ii) Part 2 captures relevant information pertaining to the calculation of the LCR. This Part should be completed by all category 1 institutions.

(iii) Part 3 captures relevant information pertaining to the calculation of the LMR. This Part should be completed by all category 2 institutions.

3. This Return is supplemented by the following returns, which are~~, or will be,~~ used by the MA to collect other liquidity-related information from AIs:

- MA(BS)18 – Return on Selected Data for Liquidity Stress-testing;
- MA(BS)22 – Return on Intraday Liquidity Position of an Authorized Institution; and
- MA(BS)23 – Return on Liquidity Monitoring Tools

	~~Reported by~~	~~Reporting bases~~	~~Reporting frequency~~
~~MA(BS)18 – Return on Selected Data for Liquidity Stress-testing~~	~~All licensed banks incorporated in HK~~	~~Unconsolidated position (HK Office and overseas branches, if any)~~	~~Quarterly~~
~~MA(BS)22 – Return on Intraday Liquidity Position of an Authorized Institution~~	~~All licensed banks incorporated in HK (and any other AIs designated by HKMA)~~	~~Same as MA(BS)1E (initially HK office basis only until further advice)~~	~~HK Office: Monthly~~ ~~Other bases: to be determined~~
~~MA(BS)23 – Return on Liquidity Monitoring Tools~~	~~All AIs~~	~~Same as MA(BS)1E~~	~~Quarterly (initially for 2015)~~

GENERAL INSTRUCTIONS

Bases of reporting

4. In line with the basis of calculation required under rule 10(1)(a), all AIs (irrespective of their place of incorporation) must report their LCR or LMR, as the case may be, on a Hong Kong office basis.

AIs incorporated in Hong Kong must, pursuant to the bases of calculation required under rules 10(1)(b) and 11(1), additionally report their LCR or LMR respectively on the following bases where applicable[4]:

(i) Unconsolidated basis, covering the AI's Hong Kong office and overseas branches (if any); and

(ii) Consolidated basis (if the AI has one or more than one associated entity), covering the AI's Hong Kong office, overseas branch(es), and any associated entity specified by the MA on a case-by-case basis.

To avoid doubt, references in this Return to an AI incorporated in Hong Kong, in terms of reporting of the LCR or LMR on a consolidated basis, should also be construed in the context of the AI's consolidated group.

Reporting frequency and submission timeline

5. A reporting institution should submit this Return (i.e. a separate copy of this Return for each basis of reporting applicable to it) to the MA not later than 14 days after the last day of each calendar month (i.e. the month-end reporting date). [5] If the submission date falls on a public holiday, it will be deferred to the next working day.

---

[4] By virtue of section 97H(3)(d) and (e) of the BO, rule 12(1) provides that the MA, after taking into account the liquidity risk associated with a part of a locally incorporated AI's business in or outside Hong Kong, may require the AI to calculate its LCR or LMR on the basis of that part by itself, or in conjunction with any other part of the AI's other business, if the MA considers it prudent and reasonable to do so. For example, in addition to the calculation (and hence reporting) bases specified in this paragraph, the MA may require an AI to calculate the LCR or LMR covering its operations in a particular country separately. The imposition of any such additional calculation (and hence reporting) basis will only be required when the MA envisages a genuine need therefor having regard to the AI's liquidity risk profile.

[5] ~~Nevertheless, the following transitional arrangements are adopted for AIs' reporting of MA(BS)1E in the year 2015:~~

~~(i) An AI is allowed to submit this Return on the Hong Kong office basis within 21 calendar days after the end of each month.~~

~~(ii) If an AI incorporated in Hong Kong is also required to submit this Return on an unconsolidated basis, consolidated basis or any other basis specified by the MA under rule 12(1) (or any combination of these reporting bases), the AI should submit this Return on such basis or bases as applicable within one calendar month after the end of each month.~~

~~The above arrangements will be reviewed over the course of 2015.~~

6. In each monthly submission, the reporting period covered in this Return refers to the calendar month ending on the month end reporting date.

Valuation of assets, liabilities, obligations or cash flows under LCR or LMR

7. Unless otherwise specified, all assets, liabilities, obligations and cash-flow items included in the calculation of the LCR or LMR should be measured according to the "trade-day approach" on the basis of their "principal amount" as defined in the BLR.[6] To elaborate further–

   (i) for the purposes of calculating the LCR, the "principal amount" of any marketable asset included as a "high quality liquidity asset" (HQLA) should be measured at fair value irrespective of the applicable accounting standards. The principal amount of other on-balance sheet assets and liabilities and associated cash flows should be the book value (including any accrued interest[7]) as determined according to the applicable accounting standards. For off-balance sheet items, the principal amount means the contracted amount or, in the case of an undrawn or partially drawn facility, the undrawn amount;

   (ii) for the purposes of calculating the LMR, the "principal amount" of any gold bullion, marketable debt security or prescribed instrument included as a "liquefiable asset" should be measured at fair value irrespective of the applicable accounting standards, whilst other assets, liabilities, obligations and cash-flow items included in the calculation are measured at book value (including any accrued interest[8]) as determined according to the applicable accounting standards.

Reporting currencies

8. Unless specified otherwise, the figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the

---

[6] The meaning of "principal amount" of an asset, liability, obligation or cash-flow item for LCR purposes is provided in rule 17. The meaning of this term for LMR purposes is provided in rule 48(8).

[7] The term "accrued interest" means the amount of interest accrued on an asset, liability, obligation or cash flow up to the position date of the LCR. (To avoid doubt, if the principal amount of an on-balance sheet item is measured at fair value, it is not necessary to add accrued interest to the reported principal amount.)

Apart from "accrued interest" that needs to be added to the book value of an on-balance sheet item, interest to be accrued on such an item within the LCR period (i.e. the reporting institution's interest receivable or payable within the relevant period) should also be included in the calculation of the LCR. The treatment of interest receivable or payable differs across individual reporting items under the LCR. Please refer to CIs for specific items under the LCR.

[8] "Accrued interest" under the LMR has the same meaning as this term under the LCR. The preceding footnote is also applicable for LMR purposes after necessary modifications.

case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

9. Reporting institutions are required to provide a breakdown of the reported amount of individual components of the LCR or LMR in the following currencies:

Components of LCR	Components of LMR
● HKD ● US dollars (USD) ● Major currencies (including euro (EUR), Japanese yen (JPY) and pound sterling (GBP)) ● renminbi (RMB) ● other currencies*	● HKD ● US dollars (USD) ● renminbi (RMB) ● other currencies*

* *If a reporting institution has significant exposures to any specific currency within the "other currencies" category, the institution should put in place adequate systems and procedures to ensure its ability to provide the relevant breakdown of the LCR / LMR components in that currency upon request by the MA. A currency is considered to be significant to an AI if the AI's liabilities denominated in that currency account for 5% or more of its total liabilities (including shareholders' funds).*[9]

Time horizon of LCR and LMR

10. The LCR of a category 1 institution is calculated based on a time horizon of 30 calendar days (the LCR period). For the purposes of calculating the LCR at a specific position date, the LCR period refers to the 30 calendar days immediately following that date. The LMR of a category 2 institution is calculated based on a time horizon of one calendar month (the LMR period). For the purposes of calculating the LMR at a specific position date, the LMR period refers to the calendar month immediately following that date.

[9] In applying this benchmark to assess whether an AI has significant exposures to individual currencies on the Hong Kong office basis, the AI should conduct the assessment by reference to the "total liabilities" figure reported by it in item 11 of the monthly "Return of Assets and Liabilities of an Authorized Institution" (Form MA(BS)1). This assessment should be conducted by all AIs monthly.

If a locally incorporated AI has any overseas branch or specified associated entity, the AI should also assess periodically whether it has significant exposures to individual currencies on an unconsolidated basis or consolidated basis (or on both bases). This assessment on an unconsolidated basis should be based on the "total liabilities" figure reported by the AI in item 11 of the quarterly return "Combined Return of Assets and Liabilities of an Authorized Institution" (Form MA(BS)1B). The frequency of assessment should therefore be quarterly. For the assessment on a consolidated basis, a locally incorporated AI may measure the "5%" benchmark by reference to its consolidated total liabilities (including shareholders' funds) published in its latest financial statements. This assessment on a consolidated basis should be conducted semi-annually once the required consolidated "total liabilities" figure is available.

Determination of "remaining term to maturity"

11. In determining whether the maturity date of an asset, liability, obligation or cash-flow item is expected to fall within the LCR period or LMR period, reference should be made primarily to its contractual terms unless otherwise specified. For example, if~~If~~ there are options for prepayment or deferred payment embedded in the contractual terms that may alter the contractual maturity date of an asset, liability, obligation or cash-flow item, for the purposes of determining its remaining term to maturity (or its earliest possible maturity date) under the LCR or LMR, the reporting institution should adopt the following approach:

(i) If the reporting institution's counterparty has an option to defer payment in relation to an asset (or a cash inflow arising from the asset) to the institution beyond the LCR period or LMR period, the institution should assume that the option will be exercised and should not count the asset (or the cash inflow) in the LCR or LMR. If however the institution has an option to advance payment in relation to an asset (or a cash inflow arising from the asset) from its counterparty within the LCR period or LMR period, it should assume that the option is not exercised, unless the institution has actually notified its counterparty that it will exercise the option.

(ii) If the reporting institution has an option to advance payment in relation to a liability or obligation (or a cash outflow arising from the liability or obligation) to the counterparty such that the payment date falls within the LCR period or LMR period and there is market expectation that the institution will exercise the option, the institution should assume that the option will be exercised and should count the liability or obligation (or the associated cash outflow) in the LCR or LMR.[10] If however the institution has an option to defer payment in relation to a liability or obligation (or the associated cash outflow), it should assume that the option is not exercised, unless the institution has actually notified its counterparty that it will exercise the option.

No double counting of reported items

12. Any asset, liability, obligation or cash-flow item included in the calculation of the LCR or LMR for reporting in this Return should not be double counted. For example,

(i) in the case of the LCR, if an asset is included in the reporting institution's HQLA (numerator), any cash inflow associated with the asset (e.g. arising from

[10] This treatment takes into account the possible interaction between an AI and its creditors. For example, if the liability or obligation of an AI is callable at its discretion (e.g. in the case of a debt security issued by the AI) and the market expects the AI to exercise the option, there may be a case for assuming that the AI will indeed exercise the option for reputation reasons (otherwise the market may perceive the AI as having liquidity problems).

the maturity of the asset within the LCR period) cannot be included in the institution's total net cash outflows (denominator). Similarly, in the case of the LMR, an asset included in the institution's liquefiable assets (numerator) cannot be deducted from the institution's qualifying liabilities (denominator) even if the asset is due to mature within the LMR period; and

(ii) where a liability or funding obligation of the reporting institution arising from a transaction can potentially be included in more than one type of expected cash outflow under the LCR (or qualifying liability under the LMR), it is not necessary for the institution to include such liability or obligation in the calculation of each and every applicable type of expected cash outflow under the LCR (or qualifying liability under the LMR), provided that the outflow treatment will yield the maximum amount of expected cash outflow for such liability or obligation under the LCR (or qualifying liability under the LMR), save for situations where a specific outflow treatment is clearly prescribed in the BLR. [11]

[11] For example, a category 1 institution has arranged a structured financing transaction (e.g. under an asset-backed commercial paper issuance programme) via a special purpose entity (SPE) and the institution has provided a committed liquidity facility to the SPE or any associated entity (say, in order to cater for the possible needs for the SPE to redeem the structured financial instrument issued under that transaction or to support an associated entity to act as a market-maker for the instrument). If the financial instrument issued by the SPE will mature within the LCR period and therefore the expected cash outflow arising from the redemption of the instrument is reported in item B17 of Section (I) under Part 2 of this Return, the institution does not need to report the committed liquidity facility associated with this structured financing transaction in item B19 or item B21 of Section (I) under Part 2 of this Return.

SPECIFIC INSTRUCTIONS

PART 1: SUMMARY CERTIFICATE OF~~ON~~ LIQUIDITY POSITION

Section (I) : Summary of information on Liquidity Coverage Ratio

13. If the reporting institution is a category 1 institution, complete item 1.8 (*the lowest LCR during the reporting period*) and item 1.9 (*the lowest level of HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before application of 75% inflow ceiling) during the reporting period*). The other information included in this Section will be generated automatically from that reported by the institution in Part 2 of this Return.

Item 1.8 enables the MA to monitor whether a category 1 institution complied~~s~~ with the minimum level of LCR required under rule 4 during the reporting period.

Item 1.9 enables the MA to monitor whether a category 1 institution, which is a "rule 37 institution" (as defined in rule 36), complied~~s~~ with the requirements in rule 37(d) that it held at least an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows (before application of the 75% inflow ceiling) during the reporting period~~month~~. For the purposes of this item, the amount of HKD-denominated level 1 assets should be calculated before adjustments of the 15% ceiling on level 2B assets and 40% ceiling on the sum of level 2A and level 2B assets. Please refer to the explanatory note provided in item A6 in Section (I) under Part 2 of this Return and **Annex 1**.

Section (II) : Summary of information on Liquidity Maintenance Ratio

14. If the reporting institution is a category 2 institution, complete item 2.7 "Lowest LMR during the reporting period" [12]. The other information required in this Section will be generated automatically from that reported by the reporting institution in respect of its LMR position in Part 3 of this Return.

[12] Item 2.7 should be the lowest LMR level calculated by the reporting institution covering all working days during the reporting period~~month~~, irrespective of whether the institution is allowed to calculate its average LMR, for the purposes of rule 7, by reference to specific days approved by the MA under rule 48(2). This figure will enable the MA to monitor a category 2 institution's liquidity position throughout the reporting period~~month~~ in a more comprehensive manner.

PART 2: LIQUIDITY COVERAGE RATIO

General requirements for reporting of LCR

Inclusion of assets as HQLA

15. The reporting institution should only report in its stock of HQLA any asset that fulfils the following requirements:

    (i) the asset falls within a class of assets specified in Schedule 2 to the BLR and meets the qualifying criteria applicable to that class of asset as specified in the Schedule;

    (ii) the asset satisfies the characteristic requirements specified in Schedule 3 to the BLR, and the operational requirements specified in Schedule 4 to the BLR that are applicable to the asset;

    (iii) the institution satisfies the operational requirements specified in Schedule 4 to the BLR that are applicable to the institution in so far as those requirements relate to the asset.

16. If an asset held by the reporting institution is eligible for inclusion as HQLA and the asset is due for redemption within the LCR period, report the asset as HQLA instead of as a cash inflow. If, however, the asset no longer qualifies as HQLA, report the asset as a cash inflow (measured at book value, including accrued interest) plus any interest receivable upon redemption. To avoid doubt, any asset lent by the institution to a third party (or borrowed from a third party) on an uncollateralized basis (e.g. the asset lending or borrowing transaction is not conducted under a repo-style transaction) cannot be counted as the institution's HQLA in any circumstance.

17. Pursuant to rules 23 and 24, if the reporting institution is incorporated in Hong Kong, the HQLA held by the institution's overseas branch or specified associated entity can be included under Section (I)A of this Part for the calculation of its LCR on a consolidated basis, unconsolidated basis and/or other basis specified by the MA under rule 12 (where applicable) only to the extent that the total net cash outflows of the branch or entity are also included in Section (I)B of this Part (irrespective of whether the HQLA are subject to liquidity transfer restriction).[13]

---

[13] For example, if a category 1 institution's consolidated group member has –
- HQLA of $1000; and
- total net cash outflows of $600, which is included in the calculation of the institution's LCR,

a portion of the member's HQLA (up to $600) can be included in the institution's consolidated stock of HQLA according to rule 23(1) even if that portion of HQLA is subject to liquidity transfer restriction. (This example is applicable even if the minimum requirement of the LCR is less than 100% during 2015 to 2018.)

18. If however the branch or entity is holding any "surplus HQLA" (as defined in rule 23(4)), any such surplus HQLA included in Section (I)(A) of this Part must meet the conditions set out in rule 23(2), including (i) the free transferability at all times of the surplus HQLA to the institution's Hong Kong office; and (ii) the absence of any liquidity transfer restriction affecting, or of any reasonable doubt about, the free transferability of the surplus HQLA.[14]

Determination of risk-weights for marketable debt securities

19. For the purposes of reporting the amount of marketable debt securities under sub-items A1(c), A1(d), A1(e) and A2(a) in Section (I) of this Part, the risk-weights applicable to those debt securities are to be determined under the standardized (credit risk) approach (STC Approach) prescribed in the following sections under Part 4 of the BCR[15]:

Marketable debt securities issued or guaranteed by:	Applicable provisions in BCR for determining the risk-weight:
● Sovereigns or central banks	● Section 55(2)
● Public sector entities	● Section 57
● Relevant international organizations	● Section 56(4)
● Multilateral development banks	● Section 58

For LCR purposes, EF debt securities are to be treated as if they were issued by a central bank (i.e. determining the risk-weight under section 55(2) of the BCR).

Reporting of net positions in marketable debt securities

20. Generally speaking, a marketable debt security reported as HQLA by the reporting institution should be net of the institution's short position in that security. If the

---

[14] According to rule 23(4), surplus HQLA held by a category 1 institution's consolidated group member refers to the amount of HQLA held by that member that is more than the higher of –
(a) the member's total net cash outflows;
(b) the HQLA required to be held by the prevailing regulations applicable to that member.

Using the example provided in the preceding footnote,
- if the consolidated group member is subject to a minimum LCR requirement of 100% (or a level less than 100%), the member is regarded to have an amount of surplus HQLA equal to $400;
- if the member is subject to a minimum LCR requirement of more than 100% (e.g. 120%), the member is regarded to have less surplus HQLA (e.g. $280 = 1000 – max (600, 600*120%)).

The member's surplus HQLA as calculated above can be included in the institution's consolidated stock of HQLA only if the surplus HQLA is not subject to liquidity transfer restriction.

[15] As required in the 2013 BCBS LCR Document (Footnote 15), the 0% risk-weight applicable to level 1 assets cannot be determined by national discretion under the STC Approach (as provided in paragraph 53 of the Basel II document *"International Convergence of Capital Measurement and Capital Standard"*, which is available at: *http://www.bis.org/publ/bcbs128.pdf*). The same principle applies to the 20% risk-weight applicable to level 2A assets.

institution is carrying a net short position in a security, no long position in that security should be reported as HQLA. Instead, the institution should report the net short position as a cash outflow under item B22 in Section (I) of this Part.

21. For example, if the reporting institution has the following positions in debt securities which are eligible for recognition as HQLA:

	Long	Short	Net Long (Net Short)
Debt Security A	$900	$300	$600
Debt Security B	500	750	(250)

The institution may recognise $600 net long position in Debt Security A as HQLA. The net short position ($250) in Debt Security B should be reported as cash outflow under item B22 in Section (I) of this Part.

However, if the reporting institution is a market maker of EF debt securities, it can only recognise its net long position in EF debt securities as HQLA. In the above example, if Debt Security A and Debt Security B are both EF debt securities (e.g. in different tenors) held by the institution as a market maker, the net long position in all such securities ($350 =$600 – $250) should be reported as HQLA by the institution. No cash outflow should therefore be reported in respect of the net short position in Security B ($250).

Transactions with obligations for delivery of collateral

22. If the reporting institution has entered into a transaction whereby the institution has an obligation to deliver an amount of assets as collateral to the counterparty by selecting from a list of allowable assets, and the institution has not actually decided what type of asset is to be delivered, the institution should, for the purposes of calculating the expected cash outflow arising from this obligation to deliver collateral to the counterparty for reporting in this Part, assume that it would select assets within the allowable list in a descending order of the level of haircut applicable to the assets in the ~~allowable~~ list. If the ~~allowable~~ list contains the following types of asset, the order of selection would be –

1st: assets that do not qualify as HQLA;
2nd: level 2B assets that are not approved RMBS;
3rd: approved RMBS;
4th: level 2A assets; and
5th: level 1 assets.

23. If the allowable list includes assets denominated in different currencies and the reporting institution has not actually decided which assets are to be delivered, the institution may, for the purposes of completing the currency-specific columns in the templates, assume that the order of selection would be –

1st: assets denominated in "other currencies";
2nd: assets denominated in RMB;
3rd: assets denominated in "other major currencies" (i.e. EUR, JPY and GBP);
4th: assets denominated in USD; and
5th: assets denominated in HKD.

24. In the case of a securities swap transaction where the reporting institution's counterparty is also obliged to deliver an asset to the institution by selecting from a list of allowable assets, the above assumptions on selection of assets are also applicable to the institution's counterparty. (Please refer to the CIs for items B9 and C3 in Section (I) of this Part.)

Cash flows arising from forward contracts and transactions awaiting settlement

25. Cash flows arising from ~~transactions awaiting settlement within the LCR period or~~ forward contracts should be treated under the LCR according to the CIs provided in **Annex 2**. Cash flows arising from transactions conducted by the reporting institution and awaiting settlement within the LCR period can be treated by reference to paragraph 4 of Annex 2, unless specified otherwise.

Pledged deposits

26. Consistent with rule 41(2), a pledged deposit placed with the reporting institution by a customer (other than a bank) that is contractually pledged to the institution as collateral to secure a loan from the institution may be excluded from the institution's total expected cash outflows to be reported under Section (I)B of this Part, provided that the following conditions are met:

(i) the loan will not be settled within the LCR period;

(ii) the pledge arrangement is subject to a legally enforceable contract that effectively disallows withdrawal of the deposit before the loan is fully settled; and

(iii) the amount of deposit to be excluded does not exceed the outstanding balance of the loan.

27. The above reporting treatment does not apply if the pledged deposit is pledged as collateral against an undrawn credit facility, in which case the reported amount of expected cash outflow that relates to that deposit or facility should be calculated based on the higher of the outflow rates that are respectively applicable to the deposit or facility as if the deposit were not a pledged deposit (re rule 41(3)).

28. If a pledged deposit is pledged as collateral against a partially drawn credit facility (re rule 41(4)) –

(i) the reporting treatment under paragraph 26 applies to the drawn portion of the facility; and

(ii) the reporting treatment under paragraph 27 applies to the undrawn portion of the facility.

Deposits taken by deposit-taking companies

29. Where the reporting institution (or its specified associated entity in case of a locally incorporated institution) is a deposit-taking company (DTC), the reporting of deposits taken by the DTC under Section (I)B of this Part should follow the CIs set out in **Annex 4**.

Specific requirements for reporting of LCR

Section (I): Liquidity Coverage Ratio (Month-end position)

30. In this Section, a category 1 institution should report the components of its LCR based on its~~the position as at the~~ month-end position ~~reporting date~~ in accordance with the CIs set out below. The post-haircut factor applicable to each HQLA item, outflow rate applicable to each cash outflow item, and inflow rate applicable to each cash inflow item, are specified as "Weight" under Column 4 of the reporting templates in Section (I)A, (I)B and (I)C of this Part respectively. The reporting institution should apply these weights for calculating the weighted amounts of HQLA, total expected cash outflows and total expected cash inflows for the purposes of reporting the LCR.

Section (I)
Ref. no.

A. HIGH QUALITY LIQUID ASSETS (HQLA)

Assets reported as HQLA by the reporting institution should meet all relevant qualifying requirements referred to in paragraph 15, and other applicable requirements set out in paragraphs 16 to 24~~21~~, of these CIs.

A1 Level 1 assets

A1(b) Withdrawable central bank reserves

Report in this sub-item the book value (including accrued interest) of any funds placed by the reporting institution with the MA for the account of the Exchange Fund that are

repayable on demand; or any of the following funds placed by the reporting institution with a central bank whereby the funds are –

(i) repayable on demand;

(ii) term funds that are explicitly and contractually repayable on notice (which expires on the first day of the LCR period) from the institution; and

(iii) term funds against which the institution can borrow from the central bank a loan on a term basis (or on an overnight but automatically renewable basis). If the amount of the loan that the institution may borrow from the central bank against the term funds concerned and the amount of the funds are different, report the lower of those two amounts.

If the reporting institution carries on a banking business in an overseas country which is subject to reserve requirements imposed by the central bank in that country, the reserves placed with the central bank may be reported in this sub-item only if –

(i) the reported amount is the portion of funds placed with the central bank that exceeds minimum reserve requirements and hence is repayable on demand; or

(ii) the reported amount is the portion of the required reserves that is allowed by the central bank to be drawn down by the institution in times of financial stress. This should be supported by reliable evidence[16] that can effectively confirm the extent to which the required reserves placed by the institution are able to be withdrawn in times of stress.

RMB funds placed with the reporting institution's RMB Fiduciary Account opened with the People's Bank of China (PBoC) through the RMB Clearing Bank can be regarded as funds placed with an overseas central bank and hence be reported in this sub-item, subject to the funds meeting the relevant qualifying requirements for recognition as HQLA. (Please refer to Part 7 of, and Schedules 2 to 4 to, the BLR for the details of the relevant qualifying requirements.)

A1(c) to (e) Marketable debt securities recognised as level 1 assets

A1(c) Report in this sub-item the fair value of marketable debt securities that comply with the requirements specified in Schedule 2 (section 1(c) of Part 2 and section 1 of Part 3)

[16] "Reliable evidence" may include, for example, a public policy statement announced by the central bank or relevant authority in the host country in which the institution's consolidated group member is operating, a notice or confirmation letter issued by the central bank or relevant authority in that host country to that member, or any other official document that can effectively verify that the reserves concerned are truly withdrawable in stressed conditions. The institution should be able to present the evidence to the MA upon request. If necessary, the MA may directly confirm with the central bank or relevant authority in that host country.

of the BLR. In particular, these debt securities must be issued or guaranteed by a sovereign, central bank, public sector entity, relevant international organization or multilateral development bank, or that are EF debt securities, and qualify for a risk-weight of 0% under Part 4 (STC approach) of the BCR.

A1(d) Report in this sub-item the fair value of marketable debt securities that comply with the requirements specified in Schedule 2 (section 1(d) of Part 2 and section 2 of Part 3) of the BLR. In particular, these debt securities must be issued by the sovereign or central bank of a country and denominated in the local currency of the country, or must be ~~that are~~ EF debt securities, and which –

(i) do not qualify for a 0% risk-weight under Part 4 (STC approach) of the BCR (i.e. section 55(2)) (hence do not qualify for inclusion in sub-item A1(c)); or

(ii) qualify for a 0% risk-weight only by virtue of section 56(1) or (2) of the BCR ~~(being debt securities denominated in the local currency of the country),~~

provided that the institution is incorporated, or carries on a banking business through a branch or consolidated entity, in the country.[17]

A1(e) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 1(e) of Part 2 and section 3 of Part 3) of the BLR. In particular, these debt securities must be issued by the sovereign or central bank of a country and meet the criteria set out for item A1(d) except that the debt securities are denominated in a currency that is not the local currency of the country in which the reporting institution is incorporated or carries on a banking business through a branch or consolidated entity. The amount of debt securities reported in this sub-item should not exceed the amount of total net cash outflows in the non-local currency (in which the debt securities are denominated) arising from the institution's banking business in the country.[18]

A2 Level 2A assets

[17] For example, if the reporting institution is incorporated in Country A or maintains a branch or consolidated entity in Country A, the institution can recognise a non-0% risk-weight debt security issued by the sovereign or central bank in Country A in its local currency as a level 1 asset under this sub-item, provided that other qualifying criteria are met. If the institution's branch or consolidated entity ceases to operate in Country A, the debt security concerned will no longer be eligible for recognition as a level 1 asset under this sub-item. In this situation, whether the debt security can be recognised as HQLA under another asset class (e.g. as a level 2A asset under sub-item A2(a)) will depend on its compliance with the qualifying criteria applicable to any other asset class.

[18] Using the example provided in the preceding footnote, if the debt security concerned is denominated in a foreign currency (e.g. "currency B") which is not the local currency of Country A, the reporting institution can recognise the debt security as level 1 HQLA under sub-item A1(e) up to an amount not exceeding the total net cash outflows of the institution in currency B (arising from the banking business conducted by the institution in Country A).

A2(a) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 2(a) of Part 2 and section 4 of Part 3) of the BLR. In particular, these debt securities must be issued or guaranteed by a sovereign, central bank or public sector entity, and which qualify for a 20% risk-weight under Part 4 (STC approach) of the BCR, but which do not qualify for inclusion as level 1 assets in sub-item A1(d) or A1(e)[19].

A2(b) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 2(b) of Part 2 and section 5 of Part 3) of the BLR. In particular, these debt securities must be issued by corporates and assigned with a credit quality grade of 1 under Part 4 (STC approach) of the BCR.

The credit quality grade of a corporate debt security (or a covered bond in the case of sub-item A2(c)) is determined by either one of the following approaches:

(i) if the debt security (or covered bond) has an ECAI issue specific rating, map the rating to Schedule 6 to the BCR for determining the credit quality grade[20]; or

(ii) if the debt security (or covered bond) does not have an ECAI issue specific rating and the reporting institution holding the debt security is approved by the MA to use the IRB approach under section 8 of the BCR (if the institution is incorporated in Hong Kong) or by the institution's home supervisor (if the institution is incorporated outside Hong Kong) to use the internal ratings-based approach that reflects the standards of the BCBS to calculate capital charge for credit risk, use the institution's internally rated probability of default for the debt security as a reference for determining the credit quality grade.

A2(c) Report the fair value of covered bonds that comply with the requirements set out in Schedule 2 (section 2(c) of Part 2 and section 6 of Part 3) to the BLR. In particular, the covered bonds reported in this sub-item must qualify for a credit quality grade of 1 under Part 4 (STC approach) of the BCR by following the CIs provided for sub-item A2(b).

A3 Level 2B assets

---

[19] Pursuant to section 2(2) and section 3(2) of Part 3 of Schedule 2 to the BLR, category 1 institutions are allowed to report marketable debt securities that qualify for inclusion under both sub-item A1(d) (or A1(e)) and sub-item A2(a) as level 1 assets under sub-item A1(d) (or A1(e)).

[20] In brief, a corporate debt security or a covered bond that can be recognised as a level 2A asset must have a long-term ECAI issue specific rating of AA- or better. In the case of a corporate debt security (e.g. commercial paper) that does not have a long-term ECAI issue specific rating, that security must have a short-term ECAI issue specific rating representing a comparable level of credit quality.

A3(a) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 3(a) of Part 2 and section 7 of Part 3) to the BLR. In particular, these debt securities must be issued by corporates with a credit quality grade of 2 (if section 7(1)(a) or (b)(i) of Part 3 of Schedule 2 to the BLR is applicable); or 2 or 3 (if section 7(1)(b)(ii) of Part 3 of Schedule 2 to the BLR is applicable).[21]

A3(b) Report in this sub-item the fair value of any RMBS that comply with the requirements set out in Schedule 2 (section 3(b) of Part 2 and sections 8 and 9 of Part 3) to the BLR. In particular, the RMBS reported in this sub-item must have been approved by the MA (under section 9 of Part 3 of Schedule 2 to the BLR) for the reporting institution to include those securities as level 2B assets.[22]

A5 Deduction: Adjustments for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A and level 2B assets

Complete Table 1 of Section (II) of this Part according to the CIs provided in **Annex 3**, including adjustments before and after the reversal by the reporting institution of any relevant securities financing transaction, which requires the institution to exchange with its counterparty, during the LCR period, an asset in its stock of HQLA for another asset, both of which are eligible for inclusion as HQLA.[23] Table 1 will generate the required figures for this item.

A6 Deduction: foreign exchange haircuts (if BLR rule 37 is applicable)

---

[21] In brief, a corporate debt security that can be recognised as a level 2B asset must have a long-term ECAI issue specific rating of A- to A+. In the case of a corporate debt security (e.g. commercial paper) that does not have a long-term ECAI issue specific rating, that security must have a short-term ECAI issue specific rating representing a comparable level of credit quality.

[22] Please refer to **Annex 2** of SPM module LM-1 for further guidance on the treatment of RMBS under the LCR. ~~An AI must obtain the MA's approval for it to include any RMBS as HQLA under the LCR (or as "liquefiable assets" under the LMR as the case may be). The applying AI must demonstrate to the MA's satisfaction that the RMBS under application meets (i) those qualifying criteria specified by the BCBS in respect of RMBS (as set out under section 8 of Part 3 of Schedule 2 to the BLR); and (ii) the characteristics and operational requirements which are applicable to HQLA in general (as set out in Schedules 3 and 4 to the BLR). It is therefore necessary for the applying AI to conduct a detailed assessment of the relevant RMBS and provide the relevant information for the MA to consider its application. An application without the required detailed assessment will not be considered.~~

~~Upon receipt of an AI's application, the MA will assess critically (i) the compliance of the relevant RMBS with the applicable qualifying criteria and requirements; (ii) the AI's ability to manage the relevant risks of holding such RMBS, as reflected from its relevant risk management policies, procedures and exposure limits; and (iii) the AI's overall risk management capability as observed by the MA in the course of ongoing supervision.~~

~~To avoid doubt, an AI having included certain RMBS issues as liquefiable assets under the Liquidity Ratio must apply to the MA for inclusion of the same securities for LCR (or LMR) purposes.~~

[23] This means that all relevant requirements set out in rule 25 are met by the assets concerned, or by the institution holding the asset insofar as those requirements relate to the asset, when the asset is held by the institution.

~~[Explanatory Note: If a category 1 institution has maintained a level of "HKD LCR mismatch", the institution may use foreign currency denominated HQLA (which must be level 1 assets) to cover the HKD LCR mismatch, subject to the requirements set out in rules 36 to 38 (supplemented by further elaboration in LM-1), including the application of foreign exchange haircuts on the relevant portion of foreign currency-denominated assets that are used to cover HKD LCR mismatch exceeding a certain threshold of usage (being 25% of HKD-denominated total net cash outflows, as provided in rule 38(2)). Table 2 of Section (II) of this Part enables the additional adjustment due to foreign exchange haircuts to be automatically generated based on the currency-specific data reported by the institution in Section (I) of this Part.~~The figure to be reported under this item is generated automatically provided that the reporting institution fulfils the conditions set out in rule 37, including, among others, the institution's holding of HKD-denominated HQLA (level 1 assets) is not less than 20% of its HKD-denominated total net cash outflows. A numerical example is provided in **Annex 1** to demonstrate the calculation of the additional adjustment due to foreign exchange haircuts, which will be transposed~~mapped~~ to item A6 of Section (I) of this Part. ~~for deduction from the total HQLA of the relevant institution.]~~

B. TOTAL EXPECTED CASH OUTFLOWS[24]

~~**B1,B2 Retail deposits**~~

B1 Retail deposits taken by Hong Kong office

Report in item B1 the book value (including accrued interest) of retail deposits taken by the reporting institution in its Hong Kong office. Interest to be accrued (and payable by the institution) within the LCR period should also be reported in this item. Provide a breakdown of these deposits by (i) stable retail deposits; (ii) less stable retail deposits; and (iii) retail term deposits.

For stable retail deposits, insert an outflow rate of 3% under the "weight" column of item B1(a) if the reporting institution has put in place and maintained effective systems and procedures to ensure compliance with all requirements set by the Hong Kong Deposit Protection Board (HKDPB) to facilitate swift operation of the Deposit Protection Scheme. (Such requirements may include, for example, timely submission of information in accordance with the requirements set out in the Guideline on Information Required for Determining and Paying Compensation issued by the HKDPB.) Otherwise, insert an outflow rate of 5% in item B1(a) if the institution cannot meet the HKDPB's requirements, or is specifically required to do so by the MA.

[24] Please refer to the guidance provided in subsection 5.8 of SPM module LM-1.

~~If a retail deposit cannot meet the qualifying criteria (or if the institution is not able to ascertain whether a retail deposit can meet the qualifying criteria) for being classified as a "stable retail deposit" or "retail term deposit", that deposit must be treated as a "less stable retail deposit" for LCR purposes.~~

If a ~~retail~~ time deposit ~~of~~ taken by a category 1 institution from a retail customer ~~is a term deposit but~~ cannot meet the criteria (or if the institution is unable to ascertain whether a ~~retail~~ time deposit can meet the criteria) for being classified as a "retail term deposit", the deposit must be treated as a ~~"~~less stable retail deposit~~"~~ if it cannot satisfy the criteria for being classified as a "stable retail deposit". ~~To be clear, retail deposits that meet the definition of "retail term deposit" will be subject to a 5% outflow rate; those that do not meet the definition will either be subject to a 5% outflow rate (if they are "stable") or a 10% outflow rate (if they are "less stable").~~

For the purposes of reporting the breakdown of a deposit item by currency, if a retail customer has placed deposits denominated in more than one currency with the reporting institution and these deposits are covered by an effective deposit insurance scheme (EDIS), assume that the EDIS covers these deposits in the order of (i) HKD deposits; (ii) USD deposits; (iii) deposits denominated in other major currencies (i.e. EUR, JPY and GBP); (iv) RMB deposits; and (v) deposits denominated in other currencies. (This assumption is also applicable to items B3 to B6, where deposit insurance coverage is also a relevant factor affecting the calibration of these items.)

B2 Retail deposits taken by ~~Hong Kong~~ overseas offices

Item B2 is applicable to locally incorporated reporting institutions whose overseas offices (e.g. overseas branches or overseas specified associated entities) have taken retail deposits, for the purposes of reporting their LCR on an unconsolidated basis, consolidated basis and/or other basis specified by the MA under rule 12 (where applicable). Unless rule 22(3) or (4) applies, the expected cash outflow arising from those overseas retail deposits is calculated in accordance with the liquidity requirements applicable to such deposits imposed by the relevant banking supervisory authority of the host country concerned in which the deposits are taken.

Report in item B2 the aggregate book value (including accrued interest) of, and the aggregate expected cash outflows arising from, retail deposits taken by all overseas offices of the locally incorporated reporting institution. Any interest to be accrued (and payable by the institution) within the LCR period should also be reported in this item. ~~This necessitates the institution to maintain internal systems that enable the calculation of such expected cash outflows in accordance with the respective liquidity requirements applicable to those deposits in the relevant host countries.~~

The following is an illustration of how item B2 should be reported assuming that the reporting institution takes stable retail deposits in two overseas countries:

	Principal amount of stable retail deposits taken by an institution's overseas offices	Outflow rates applicable in the relevant country
Country A	USD1000 (equiv. HK$7800)	3%
Country B	EUR200 (equiv. HK$2000)	5%

Sub-item B2(a) should be reported as follows:

	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
2 Retail deposits taken by overseas offices								
(a) stable retail deposits	9800		334		234 =7800*3%	100 =2000*5%		

B3, B4 Small business funding

Report in items B3 (or ~~and~~ B4) the book value (including accrued interest) of small business funding obtained by the reporting institution in accordance with the CIs for items B1 (or ~~and~~ B2)~~,~~ as if such funding is akin to retail deposits taken by the reporting institution's Hong Kong office (or overseas office as the case may be).

B5 Operational deposits

Report in this item the book value (including accrued interest) of operational deposits received by the reporting institution from wholesale customers (other than small business customers), including both financial institutions and non-financial entities. Interest to be accrued on these deposits (and payable by the institution) within the LCR period should also be reported in this item.

The deposits reported in this item must meet the qualifying criteria in relation to operational deposits provided in clause 7 of the CoP. ~~In order to ensure compliance with the relevant criteria, the reporting institution must put in place appropriate systems and methodology to distinguish between operational deposits and non-operational deposits (the latter include excess operational deposits). If the institution is not able to identify operational deposits effectively, it must not treat any deposit as operational deposit.~~[25]

[25] ~~The systems and methodology adopted by a category 1 institution for identifying operational deposits should be sufficient to facilitate ongoing assessment of the eligibility of deposits reported as operational deposits. The assessment should be conducted in a sufficiently granular manner, taking into account relevant factors that may affect the risk of withdrawal of such deposits, particularly in times of stress. The relevant factors that may be considered in assessing the amount of operational deposits include, for example, a customer's business relationships with the institution, the extent to which the customer has relied on the institution's operational services, historical trend of deposit balance (taking into account, for example, the absolute level and volatility of deposit balance), level of concentration of operational deposits taken from a small number (or a particular type) of depositors, etc.~~

If the deposits taken by the reporting institution from a customer consist of both operational deposits and non-operational deposits, assume that the portion of deposits that qualifies as operational deposits will take precedence over the remaining deposits when determining the level of protection covered under an EDIS (where applicable).

For example, assume that the reporting institution has taken the following deposits from customers:

(Unit: HK$000 equivalent)	Customer A (non-FI)	Customer B (non-FI)	Customer C (non-FI)	Customer D (FI)
Operational deposits that comply with clause 7 of CoP	700	500	150	400
Other deposits not regarded as operational deposits	300	250	350	200
Total	1,000	750	500	600

The deposits are insured under an EDIS up to HK$500,000 equivalent per a customer's total eligible deposits placed with the institution.

The reporting institution should report the above deposits in item B5 (and item B6) as follows:

(Unit: HKD'000 equivalent)

		Customer A	Customer B	Customer C	Customer D
5	Operational deposits				
(a)	fully insured by an effective deposit insurance scheme	500	500	150	400
(b)	not covered under sub-item B5(a)	200	0	0	0
(c)	*Memorandum item: Excess operational deposits (excluded from sub-item B5(a) or B5(b))*	300	250	350	200
6	Unsecured wholesale funding				
(a)	(other than operational deposits) provided by corporates, etc.				
	(i) amount entirely protected by EDIS	0	0	350	0
	(ii) not covered under sub-item B6~~6~~(a)(i)	300	250	0	0
(b)	other than funding mentioned in~~covered under~~ item B3, B4, ~~or~~ B5 or sub-item B6(a)	0	0	0	200

For sub-item B5(a), the outflow rate should be the same as that used by the reporting institution in sub-items B1(a) and B3(a).

~~As required under clause 7(4) of the CoP, the reporting institution should be able to provide, upon the request of the HKMA, its assessment of the amount of operational deposits that meet the criteria set out in clause 7(2) of the CoP. The reporting institution may be required by the HKMA not to include its deposits as "operational deposits" for LCR purposes, if the deposits concerned are not able to meet one or more of the applicable criteria set out in clause 7(2).~~

Report in sub-item B5(c), as a memorandum item, excess operational deposits (excluded from sub-item B5(a) or B5(b)). As demonstrated in the above example, this portion of deposits should be included in item B6.

B6 Unsecured wholesale funding (other than operational deposits)

Report the book value (including accrued interest) of unsecured whole funding (other than operational deposits) in this item according to the CIs below. Interest to be accrued on such funding (and payable by the institution) within the LCR period should also be included.

Sub-item B6(a) covers unsecured wholesale funding (other than operational deposits) provided by corporates (other than small business customers), sovereigns, the MA for the account of the Exchange Fund, central banks, multilateral development banks and public sector entities. Report the funding concerned in two separate components:

(i) report in paragraph (i) the funding provided by customers captured in this sub-item the entire amount of which is fully insured by an EDIS; and

(ii) report in paragraph (ii) the funding provided by customers captured in this sub-item the entire amount of which is not fully insured by an EDIS.

Hence, if a customer provides funding of $800,000 to the reporting institution but the EDIS concerned provides full protection only up to $500,000 of a customer's eligible deposits, the entire amount ($800,000)~~ deposit~~ does not fall within paragraph (i) and has to be reported in paragraph (ii) of this sub-item.

Report in sub-item B6(b) unsecured wholesale funding other than funding covered under item B3, B4,~~ or~~ B5 or ~~sub-item~~ B6(a). This means that this sub-item does not include small business funding, operational deposits, and unsecured wholesale funding provided by wholesale customers (excluding small business customers).~~) covered in sub-item B6(a).~~ The customers covered in this sub-item may include, for example, financial institutions, fiduciaries[26], beneficiaries[27], conduits and SPEs engaged in structured financing transactions, and any of the reporting institution's associated entities which is not a financial institution. Unsecured wholesale funding received by the institution in the course of providing correspondent banking and prime brokerage

[26] The term "fiduciary" means a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles. (Please refer to Footnote 43 of the 2013 BCBS LCR Document.)

[27] The term "beneficiary" means a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity trust or other contract. (Please refer to Footnote 44 of the 2013 BCBS LCR Document.)

services should also be reported in this sub-item.[28] In addition, this sub-item should include unsecured wholesale funding (other than small business funding) received by the reporting institution (or its specified associated entity), if the institution (or that entity) ~~which~~ is a DTC that is not subject to section 12(3) of the BO by virtue of the MA's written permission to early repay the funding concerned (see **Annex 4** for details).

B7 Debt securities and prescribed instruments issued by the reporting institution and redeemable within the LCR period

Report in this item the book value (i.e. the amount that is contractually redeemable upon maturity, including accrued interest) of debt securities and prescribed instruments issued by the reporting institution which are redeemable within the LCR period, irrespective of the type of investors holding these securities and instruments. Interest to be accrued on these securities and instruments (and payable by the institution) within the LCR period should also be reported in this item.

To avoid doubt, this item does not cover the redemption of asset-backed securities, covered bonds or other structured financial instruments issued by the reporting institution within the LCR period. The expected cash outflow arising from the redemption of such instruments should be reported in item B17.

B8 Secured funding transactions (other than securities swap transactions)

Report in this item the book value (including accrued interest, if any) of money payable by the reporting institution within the LCR period arising from maturing secured funding transactions (which are not securities swap transactions). Breakdown the money payable by type of counterparty and/or the type of collateral[29] posted by the institution to the counterparty as required.

The specific currency columns should be reported based on the currency denomination of the money payable by the institution (irrespective of the currency denomination of the underlying collateral).[30]

---

[28] As provided in clause 9 of the CoP, if a category 1 institution has received from customers any unsecured wholesale funding in the course of providing prime brokerage services to those customers and the funding is withdrawable within the LCR period, the entire amount of that funding is included in this sub-item, irrespective of whether the institution has maintained, or is required to maintain, all or any portion of the funding in segregate accounts for the protection of customer assets.

[29] As provided in clause 11(3) of the CoP, a secured funding transaction (other than a securities swap transaction) entered into by a category 1 institution is not regarded as being collateralized by an asset that falls within level 1 assets, level 2A assets, approved RMBS or other level 2B assets unless that asset satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

[30] For example, if the reporting institution is obliged to pay an amount of money in Hong Kong dollars within the LCR period under a secured funding transaction which is collateralized by a security denominated in USD dollars, the institution should report the amount payable in the "HKD" column instead of the "USD" column.

If the reporting institution has entered into a securities lending transaction under which the institution lends its own securities to the counterparty to cover the latter's short positions in equivalent securities and receives a sum of money from the counterparty in exchange, the expected cash outflow arising from the transaction should be included under this item. If, however, the securities lent by the institution to the counterparty are obtained from another counterparty as collateral, and the securities do not qualify as HQLA, the expected cash outflow arising from the transaction should instead be included under item B21 as "other contingent funding obligations" (please refer to the CIs for item B21 for details).

For the purposes of reporting under sub-item B8(b), the terms "domestic public sector entity" and "foreign public sector entity" are defined in the BCR. Any public sector entity being referred to in this sub-item must qualify for a risk-weight of not exceeding 20% in the calculation of credit risk under the STC approach (in accordance with section 57 of the BCR).

B9 Securities swap transactions

If the reporting institution has entered into a securities swap transaction that is due for settlement within the LCR period, complete Table 3 in Section (II) of this Part, which will generate the required figures for this item.

In Table 3, report, in the appropriate rows, the principal amounts (measured at fair value) of securities to be delivered by the reporting institution within the LCR period under the maturing securities swap transactions it has entered into. In order to determine the row under which a particular securities swap transaction should be reported, the institution should ascertain the type of securities to be delivered by it and the type of securities to be received from the counterparty within the LCR period.[31]

For example, a category 1 institution (Bank A) has incurred some positions arising from securities swap transactions conducted with its counterparty (Bank B). These transactions, as described below, are due for settlement within the LCR period.

Transaction (I): To deliver a level 1 asset (HKD1000) and to receive a level 2A asset;

Transaction (II): To deliver a level 2A asset (USD100, which is assumed to be equivalent to HK$780) and to receive an RMBS that has not been approved by the MA for recognition by the institution as a level 2B

[31] As provided in clause 11(6) of the CoP, a security to be delivered, or received, by a category 1 institution under a security swap transaction is not regarded as a level 1 asset, level 2A asset, approved RMBS or other level 2B asset unless the security satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

asset.

Bank A should report its obligations to deliver securities under Transaction (I) and Transaction (II) in item (b~~a~~) and item (i~~g~~) of Table 3 respectively. It should complete this Table as follows, so as to generate the total weighted amount ~~required data under item (k)~~ for the purposes of item B9.

(Unit: HKD'000 equivalent)

	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Type of securities to be received by reporting institution from counterparty within the LCR period	Principal amount of securities to be delivered by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HKD	USD	Other major $	RMB	Other $
(b~~a~~)	level 1 assets	level 2A assets	1000	15%	150	150	0	0	0	0
(i~~g~~)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets	780	85%	663	0	663	0	0	0
~~(k)~~		Total	1780		813	150	663	0	0	0

(Note: If Bank B is also a category 1 institution, it should report the expected cash inflow arising from the two securities swap transactions (i.e. Transaction (I) and Transaction (II)) in item C3 of Section (I) by completing Table 4 in Section (II).)

If the reporting institution (or its counterparty) is contractually allowed to select securities from a list of allowable types of securities (with different levels of quality and liquidity value) for delivery ~~to each other~~ in a securities swap transaction, and the institution (or its counterparty) has not confirmed what type of securities the institution (or its counterparty) will deliver under the transaction, the institution may assume that it (or its counterparty) will select from the list the type of securities to be delivered in the order specified in paragraph 22 of these CIs.

B10 Contractual net cash outflows arising from derivative contracts

Complete Table 5 of Section (II) of this Part following the CIs provided in **Annex 5**, if the reporting institution has any liabilities or obligations arising from derivative contracts within the LCR period. This Table will generate the required figures for cash outflow item B10 (and also cash inflow item C9) under Section (I) of this Part.

B11 Derivative contracts or other transactions with material adverse event clauses

If the reporting institution has entered into any derivative contract or other transaction which contains a material adverse event clause, which, if such an event occurs, will require the institution to –

(i) pay a sum of money;
(ii) deliver additional collateral to the institution's counterparty; or
(iii) incur any funding need arising from adverse changes in the institution's contractual rights to re-hypothecate collateral received from the institution's counterparty,

report the sum of the contracted amounts of (i), (ii) and (iii) (or any combination of them, as the case may be) by the institution within the LCR period, as if the material adverse event were to occur within the LCR period.

B12 Potential loss in market value of posted collateral securing derivative contracts or other transactions

Complete Table 6 of Section (II) of this Part following the CIs provided in **Annex 6**, if the reporting institution has posted any asset to the counterparty as collateral under a derivative contract or other transaction[32]. Table 6 will generate the required figures for this item.

B13 Excess non-segregated collateral callable by counterparty under derivative contracts or other transactions

Report in this item the fair value of collateral posted to the reporting institution by a counterparty in excess of the contractually required amount if the counterparty has a unilateral right to withdraw the excess collateral on demand or within the LCR period, and the collateral received by the institution is not segregated from other assets held by the institution, meaning that the excess collateral, may be or has already been, re-hypothecated by the institution, counted as the institution's HQLA if the collateral is so qualified, or utilis~~z~~ed by the institution for its other business operations.

B14 Collateral substitution under derivative contracts or other transactions

This item captures situations in which the reporting institution has received HQLA collateral from the institution's counterparty under a derivative contract or other transaction, whereby the collateral is not segregated from other assets held by the institution and the counterparty has a contractual right to substitute the HQLA collateral posted to the institution by HQLA collateral of lower liquidity quality or

[32] This item is applicable to derivative contracts or other transactions, as long as the posted collateral is subject to market risk thus rendering a category 1 institution potentially obliged to post additional collateral to its counterparty if the collateral drops in value. ~~For example, in a repo transaction, an institution's expected repayment of secured funding within the LCR period is included in item B8. If the institution has a contractual obligation under the transaction to top-up the collateral in case the collateral value decreases, it should also account for the additional liquidity risk associated with this contractual obligation under item B12, if this liquidity risk has not been captured elsewhere.~~

non-HQLA collateral anytime within the LCR period. It is assumed that the counterparty will exercise the right within the LCR period by substituting the HQLA collateral by collateral of the lowest liquidity quality among the allowable types of assets to be substituted. Complete Table 7 under Section (II) of this Part, which will generate the required figures for this item.

In Table 7, report, in the appropriate rows, the principal amounts (measured at fair value in the case of marketable assets) of collateral posted to the reporting institution by the counterparties under the derivative contracts or transactions concerned. In determining the row under which each of those contracts or transactions should be reported, the institution should ascertain –

(i) the type of HQLA collateral posted by the counterparty to the institution (Column 2 of Table 7); and

(ii) the type of assets that may be posted by the counterparty to the institution for collateral substitution (Column 3 of Table 7).

The type of assets under (ii) is derived by applying an order of collateral substitution in line with that specified in paragraph 22 of these CIs (to the extent allowed under the relevant contract or transaction).

As an illustration, if the counterparty is contractually allowed to substitute level 1 HQLA collateral ~~which consists of level 1 assets~~ by any other collateral (which may be non-HQLA) ~~that falls with level 2A assets and level 2B assets and any other asset (i.e. non-HQLA)~~, it is always assumed that the counterparty will use non-HQLA for collateral substitution. In other words, the contract or transaction should be reported under item (e~~d~~) of Table 7 with an applicable outflow rate of 100%. If, however, the type of collateral allowed to be substituted is confined to HQLA (i.e. level 1, level 2A and level 2B assets), it is assumed that the counterparty will always use level 2B assets that are not "approved RMBS" for collateral substitution. In other words, the contract or transaction should be reported under item (d~~e~~) of Table 7 with an applicable outflow rate of 50%.

B15 Contractual obligations to post collateral to counterparty under derivative contracts or other transactions (not otherwise covered in Section (I)B)

If the reporting institution has any contractual obligation to provide collateral to its counterparty under a derivative contract or other transaction within the LCR period, report in this item the principal amount of collateral (measured at fair value in the case of marketable assets) that the institution is required to provide to the counterparty, unless this obligation is already captured under other cash outflow items in Section (I) of this Part. This contractual obligation should be reported irrespective of whether the counterparty has actually demanded the institution to provide additional collateral.

B16 Increase in collateral needs arising from adverse changes in market value of derivative contracts or other transactions

If the reporting institution has entered into derivative contracts or other transactions that subject the institution to collateral requirements, report in this item the estimated amount of additional collateral that has to be posted to counterparties arising from adverse changes in the market value of such contracts or transactions (***Value X***) by applying the formula and steps listed below:

Value X is the largest absolute value of the total cumulative amount of net collateral flow of a category 1 institution realized in any period of 30 calendar days during the 24 months preceding to the date on which the reporting institution's LCR is calculated. It should be calculated according to the following formula:

$$\text{Value X} = \max\left\{\left|\sum_{n=1}^{30}(\text{daily net collateral flow})_n\right|, \left|\sum_{n=2}^{31}(\text{daily net collateral flow})_n\right|, \ldots, \left|\sum_{n=701}^{730}(\text{daily net collateral flow})_n\right|\right\};$$

where—

(a) $(\text{daily net collateral flow})_n$ means net amount of collateral inflows or outflows on day "n" caused by changes in the fair value of derivative contracts or other transactions subject to collateral requirements; and

(b) it is assumed that 24 months consist of 730 calendar days.

If the reporting institution is not able to calculate Value X due to data insufficiency or any other reason, the institution should notify the MA of this inability and the reasons for it, and agree an alternative calculation method with the MA for reporting under this item.

For the purposes of reporting the breakdown of Value X by currency, adopt the approximation method illustrated in the example below:

Assume the reporting institution's Value X (on an all-currency basis) is HK$100 and that its total liabilities (including shareholders' funds) at the end of the most recent financial disclosure period had a currency profile as follows:

	Total	HKD	USD	Other major $	RMB	Other $
Total liabilities (including shareholders' funds)	100%	60%	15%	10%	5%	10%

Approximate the currency breakdown of Value X as follows:

	Total	HKD	USD	Other	RMB	Other $

				major $		
Value X	100	60 (100*60%)	15 (100*15%)	10 (100*10%)	5 (100*5%)	10 (100*10%)

B17 Repayment of funding obtained from structured financial instrument issued by the reporting institution and redeemable within the LCR period

If the reporting institution has issued any asset-backed securities, covered bonds or other structured financial instruments which will mature within the LCR period, report in this item the book value (including accrued interest) of these financial instruments to be redeemed. Interest to be accrued on these instruments (and payable by the institution) within the LCR period should also be reported in this item.

If the redemption of the above-mentioned securities or instruments will entitle the institution to receiving any asset that qualifies as HQLA (meaning that all the requirements in rule 25 are satisfied, or will be satisfied when the asset is received by the institution) within the LCR period, the fair value of that asset (after applying a suitable post-haircut factor specified in rule 35(1) in the case of level 2A or level 2B assets) can be deducted from, and only up to, the amount to be reported under this item.

B18 Obligations for repayment of maturing debt or provision of funding or assets arising from any embedded option in structured financing transactions[33]

If the reporting institution has entered into structured financing transactions (such as asset-backed commercial paper issuance programmes) with the obligations to repay any debt maturing within the LCR period under those transactions, and/or provide any funding or assets that may arise from any embedded options in those transactions within the LCR period, report in this item –

(i) the book value (including accrued interest) of such maturing debt to be repaid (if not already included under item B17) and also any interest to be accrued on the maturing debt (if the payment of such interest will rely on the funding to be provided by the institution); and

(ii) the funding or assets (measured at fair value in the case of marketable assets, or otherwise measured at book value (according to the CIs provided in paragraph (i)) that may need to be provided by the institution under the embedded options in the transactions.

[33] This item captures expected cash outflows associated with loss of funding on structured financing transactions including asset-backed commercial paper, conduits, securities investment vehicles and other such financing activities which may result from (i) the inability to refinance maturing debt; or (ii) the existence of derivative or derivative-like components contractually written into the documentation associated with structured financing transactions that would allow the "return" of assets in a financing arrangement, or that would require the original asset transferor to provide liquidity, effectively ending the financing arrangement within the LCR period.

If the reporting institution conducts a structured financing transaction via a special purpose entity (which may be a special purpose vehicle, conduit or structured investment vehicle), the institution should, for the purposes of this item, treat the entity as if it were a part of the institution irrespective of whether the entity is a specified associated entity of the institution. In other words, the institution should, in reporting this item, look through to the maturity of the debt instruments issued by the entity, and any embedded options in those instruments that may potentially trigger the need to provide funding or assets, as if those debt instruments were issued by the institution itself.

B19 Potential drawdown of undrawn committed facilities

Report, in Table 8 of Section (II) of this Part, the undrawn portion of committed credit facilities and committed liquidity facilities[34] that can potentially be drawn by

---

[34] Please refer to the guidance provided in paragraph 5.8.21 to 5.8.26 of SPM module LM-1. ~~Reporting institutions should have regard to the manner in which the BLR define committed facilities, and some specific circumstances in which committed facilities are treated as credit or liquidity facilities under the CoP. Under the BLR –~~

~~(i) the term "committed facility" means a contractual agreement between a category 1 institution and its customer whereby the institution has a contractually irrevocable commitment to extend funds to the customer at a future date, whether for credit or liquidity purposes, in accordance with the terms and conditions specified in the agreement; and~~

~~(ii) the term "committed liquidity facility" means a committed facility that serves as a standby facility granted by a category 1 institution to its customer to refinance the customer's debt obligations (for example, pursuant to a commercial paper programme) in situations where the customer is unable to refinance those debt obligations in financial markets.~~

~~In addition, pursuant to clause 21(4) and (5) of the CoP, for the purposes of this item –~~

~~(i) subject to paragraph (ii), a committed facility is treated as a committed credit facility if the facility is granted by a category 1 institution to a corporate for the purposes of financing the corporate's general working capital or import or export activities; and~~

~~(ii) a committed facility granted by a category 1 institution to a hedge fund, money market fund or special purpose entity (including any special purpose funding vehicle) is treated as if the facility were entirely a committed liquidity facility (which should be reported under sub-item 2(f) of Table 8 in Section (II) of this Part).~~

~~*[Explanatory note: On the meaning of "contractually irrevocable" commitment, the HKMA does not regard the presence of protective clauses, such as "material adverse event" clause or "availability of funds" clause, set out in a facility agreement as a sufficient ground for an AI to establish that its commitment under that facility is "revocable". An AI's commitment under a loan facility granted by it to a customer should be regarded as "irrevocable" upon the acceptance in writing by the customer. The rationale for this is that the AI may not have effective control as to whether it will be requested to meet its lending commitment provided that the customer can fulfil the terms and conditions under the facility.*~~

~~*In the revised version of LM-1, the HKMA is minded to elaborate on the meaning of "contractually irrevocable" commitment as follows:*~~

~~*An "irrevocable" commitment exists if an AI has undertaken a contractual commitment to provide funding to its customer, where the commitment –*~~

~~*(i) is not cancellable unilaterally by the AI in any circumstances; or*~~

~~*(ii) is cancellable unilaterally by the institution subject to certain contractually defined conditions,*~~

customers of the reporting institution within the LCR period. Table 8 will generate the required figures for this item.

If the reporting institution has granted a committed facility to its customer in order to provide standby liquidity support for the customer's debt obligations, report in this item the undrawn portion of the facility as a committed liquidity facility only to the extent of the customer's debt obligations that will mature within the LCR period and is supported by the facility. There is no need to include that portion of the facility which is backing the customer's debt obligations that will mature beyond the LCR period.[35] However, if the facility can be drawn for other purposes (i.e. not being confined to the provision of standby liquidity support for the customer's debt obligations), the undrawn amount of the facility in excess of the customer's debt obligations maturing within the LCR period (representing additional capacity of the facility to support other purposes within the LCR period) should be reported as if it were a committed credit facility.[36]

If the reporting institution has entered into a structured financing transaction and provided a committed liquidity facility to support that transaction, it is not necessary for the institution to include the committed liquidity facility for the purposes of this item, provided that the institution has included the structured financing transaction in the reporting of expected cash outflow under item B17 or B18 (or both), as the case may be.

If the reporting institution has received (or will receive upon drawdown of a committed facility granted to a customer) collateral that qualifies as HQLA (hence meeting all the requirements set out in rule 25) to pledge against the facility, the post-haircut fair value (i.e. after applying the post-haircut factors set out in rule 35(1)) of the HQLA collateral may be deducted from the undrawn portion of that facility if –

~~*but none of these conditions has materialized.*~~

~~*The HKMA will consult the industry on the proposed revision of LM-1 in due course.]*~~

35 If the maturity date of the customer's debt obligations may be advanced by any embedded prepayment options, such options should be taken into account by the reporting institution in determining whether the committed liquidity facility granted by the institution to cover such obligations should be included in the calculation of this cash outflow item.

36 For example, Bank A has granted a committed facility with a usable limit of $10 million to provide standby liquidity support for a customer's debt obligations. If the customer's debt obligations covered by this facility consist of $1 million maturing within the LCR period and $2 million maturing beyond the LCR period, Bank A should report in item B19 an undrawn amount of $1 million as a committed liquidity facility. If this facility is granted for the mentioned purpose only, Bank A does not have to report any undrawn amount as a committed credit facility. However, if this facility can be used by the customer for other purposes, Bank A should report the remaining usable portion of this facility (i.e. $10 million - $1 million = $9 million) as a committed credit facility if this remaining portion can be drawn by the customer for purposes other than debt coverage within the LCR period.

(i) the institution is legally entitled and operationally capable of re-hypothecating the pledged asset to obtain funding once the facility is drawn, but it has not done so yet;

(ii) the institution has no obligation to return the collateral to the customer or to any third party upon demand or at any time within the LCR period;

(iii) to avoid double counting, the collateral is not included by the institution as HQLA for the purposes of calculating the LCR; and

(iv) there is no undue correlation between the probability of drawing on the facility and any potential decline in the fair value of the collateral. In other words, the drawdown of the facility is not expected to have material impact on the fair value of the asset.

For the purposes of reporting the currency breakdown in this item –

(i) if the HQLA collateral mentioned above is denominated in a currency that is not the same as that of the committed facility, convert the post-haircut fair value of the collateral into the currency in which the committed facility is denominated before deduction from the undrawn portion of the facility; and

(ii) if the committed facility is a multi-currency facility and the institution cannot ascertain the currency denomination of the amount of the facility that may be drawn by the customer within the LCR period, report the currency breakdown of the undrawn amount as if the facility would be drawn in Hong Kong dollars. (If the multi-currency facility does not allow drawdown in Hong Kong dollars, assume the facility will be drawn by the order of: US dollars, other major currencies, RMB and lastly other currencies (where applicable).)

B20 Contractual lending obligations not otherwise covered in Section (I)B

Report, in Table 9 of Section (II) of this Part, the contracted amount of the following contractual lending obligations not otherwise covered in Section (I)B of this Part:

(i) contractual lending obligations to financial institutions, the MA for the account of the Exchange Fund, or central banks; and

(ii) contractual lending obligations to –
  (a) retail customers;
  (b) small business customers; and
  (c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers) or any other persons not included in paragraph (i) and paragraph (ii)(a) and (b).

Table 9 will generate the required figures for this item.

B21 Other contingent funding obligations (whether contractual or non-contractual)

Report the reporting institution's other contingent funding obligations, as specified in Table 10 of Section (II) of this Part, which will generate the required figures for this item.

In Table 10 –

(i) Report in item 1 the total contracted amount of trade-related contingencies that are related to import or export trade transactions conducted by the reporting institution's customers. This item does not capture undrawn commitments under trade financing facilities (which should be captured in item B19 of Section (I) as calculated in Table 8 under Section (II) of this Part).

(ii) Report in item 2 the total contracted amount of guarantees and letters of credit provided by the reporting institution that are not stemmed from import or export trade transactions of its customers.[37]

---

[37] For example,

(1) A category 1 institution has granted a committed credit facility with a credit limit of $100 million to a customer. If the institution has issued an L/C of $20 million under that facility to facilitate an import trade conducted by the customer and the institution's obligation under the L/C may be called upon within the LCR period, the institution should report its contingent obligation under this L/C in item 1 of Table 10. (To avoid doubt, if there is concrete evidence supporting that a trade-related contingency will not be called upon within the LCR period, then the institution's contingent funding obligations arising from that trade-related contingency is not included in the calculation of this outflow item.) The remaining usable credit limit under that facility ($80 million) should be reported in Table 8.

(2) If the institution has also issued a letter of guarantee with a guaranteed amount of $10 million to support the customer's business activity which is not directly related to a specific trade transaction, the institution should report that guaranteed amount ($10 million) in item 2 of Table 10 if its contingent obligation under the guarantee may be called upon within the LCR period. The remaining usable credit limit under the facility reported in Table 8 will then be $70 million.

(3) If the institution's contingent obligation under the L/C or the guarantee has been called upon and the payment date has been confirmed to fall within the LCR period, the amount payable by the institution should be reported in Table 9 under Section (II) (so that the expected cash outflow will be reflected in item B22 of Section (I)).

(4) If the institution has received from the customer any HQLA collateral to cover the facility mentioned in paragraph (1) of this footnote, the institution may deduct the collateral value (after applying the haircut applicable to level 2A assets and level 2B assets as the case may require) for the purposes of reporting the expected cash outflows mentioned in paragraphs (1), (2) and (3). In reporting these expected cash flows, the institution may assume that the collateral received is deployed to cover the cash outflow items in a descending order of the outflow rates applicable to those items.

(5) If the institution will receive money from the customer within the LCR period to cover the amount payable as mentioned in paragraph (3), the institution may report the amount receivable as a cash inflow in item C10 of Section (I). If the institution converts the amount payable into a loan to the customer and the loan will mature within the LCR period, the loan can be reported as a cash inflow in item C4 of Section (I).

(iii) Report in item 3 the total contracted amount of the undrawn portion of uncommitted facilities granted by the reporting institution. An uncommitted facility means a credit facility or liquidity facility which is unconditionally cancellable by the institution without prior notice to the borrower.

(iv) Report in item 4 non-contractual contingent funding obligations of the reporting institution, as specified in sub-items (a) to (e).

(a) Sub-item 4(a) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to repurchase (or early redeem) debt securities or structured financial instruments, irrespective of whether the maturity date of which is beyond the LCR period, by virtue of the institution's (or its associated entity's) association with such debt securities (as the issuer, market maker or dealer) or such financial instruments (as the originator, sponsor, marketing agent or seller), especially in times of stress[38]. Report in this sub-item the book value (including accrued interest) of such debt securities or financial instruments if the institution is satisfied[39] that there is a reasonable expectation that the non-contractual contingent funding obligation will be materialis~~z~~ed within the LCR period. If the institution expects that this obligation also covers the interest to be accrued on such securities or instruments within the LCR period, the interest payable by the institution should also be reported in this item.

(b) Sub-item 4(b) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to repurchase money market funds or other collective investment funds marketed by the reporting institution (or its associated entity) owing to, for example, failure to satisfy reasonable expectations from investors about the liquidity and marketability of the funds concerned.[40] Report in this sub-item the fair value of the funds if the institution is satisfied that there is a reasonable expectation that the non-contractual contingent funding obligations will be materialis~~z~~ed within the LCR period.

---

38 For example, the reporting institution which has sponsored the issue of a structured financial instrument by its associated entity may be obliged to repurchase the financial instrument when its associated entity is in financial trouble.

39 Wherever the phrase "the institution is satisfied" is referred to in this Part for the purposes of reporting any particular item (or sub-item), the MA expects the institution concerned to exercise due diligence to ascertain that there are reasonable grounds supporting the reporting of the item (or sub-item) concerned.

40 For example, the investment funds may be marketed with the objective of maintaining a stable value or the investors may anticipate ready marketability of those funds.

(c) Sub-item 4(c) caters for situations in which customer short positions of the reporting institution are covered by non-HQLA collateral received from the institution's other customers in respect of which the institution has the right of re-hypothecation such that the institution may be obligated to provide funding to cover ~~uncovered~~ customer short positions in the event of withdrawal of the non-HQLA collateral by its other customers. Report in this sub-item the fair value of such non-HQLA collateral that is used to cover customer short positions.[41]

(d) Sub-item 4(d) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to meet potential liquidity draws by a joint venture of the institution or an entity in which the institution has a minority interest, and the joint venture or entity is not consolidated for the purposes of rule 11(1), where there is a reasonable expectation that the institution will be the main liquidity provider when the joint venture or entity concerned is in need of liquidity. If the institution's obligation to provide liquidity to the joint venture or entity has been captured in any other cash outflow item, there is no need to include the obligation in this sub-item[42]. Before reporting any non-contractual contingent funding obligation under this sub-item, the institution should notify the MA the existence of the obligation and the circumstances giving rise to the obligation and agree with the MA the methodology for determining the amount of the obligation for the purposes of the LCR on a case by case basis.

(e) Sub-item 4(e) caters for any other non-contractual contingent funding obligations where the reporting institution is satisfied that there is a reasonable expectation that the obligations will be materialis~~z~~ed within the LCR period. Report in this sub-item the amount of such obligations as expected by the institution.

B22 Other contractual cash outflows

Report in this item ~~other~~ contractual cash outflows of the reporting institution (not being contractual cash outflows relating to the operating expenses of the institution) that may occur within the LCR period and are not covered in ~~the~~ other cash outflow items in Section (I)B of this Part. These include, for example, expected cash outflows arising from uncollateralized securities borrowing transactions, uncovered short

[41] To avoid doubt, if the collateral satisfies the requirements set out in rule 25(a) and (b), the transaction can be included in item B8 of Section (I) of this Part, where the expected cash outflow of the transaction is calculated based on a lower outflow rate.

[42] For example, the institution's contractual funding obligation arising from a committed facility granted to a joint venture or minority interest entity should be captured in item B19 instead of in this sub-item.

positions, amounts payable for transactions awaiting settlement, dividends and interest payable by the institution within the LCR period[43].

For uncollateralized securities borrowing transactions, uncovered short positions and similar transactions which do not have a definite term to maturity, assume that the transactions will be closed out and the reporting institution's liabilities or payment obligations arising from the transactions will be fulfilled within the LCR period. In the case of forward contracts and transactions awaiting settlement, follow the CIs provided in paragraph 25 (as read in conjunction with **Annex 2**).

In addition, this item should include retail deposits and small business funding taken by the reporting institution or by its associated entity, where the institution or that entity is a DTC that is ~~(which is a DTC) that are~~ not subject to section 12(3) of the BO by virtue of the MA's written permission to early repay the deposits or funding concerned (see **Annex 4** for details).

C. TOTAL EXPECTED CASH INFLOWS

C1,C2 Secured lending transactions

Report in item C1 the principal amount of money (or the fair value of securities) to be received by the reporting institution within the LCR period arising from maturing secured lending transactions (including securities swap transactions), under which the institution has re-hypothecated securities obtained from the counterparty as collateral to cover the institution's short positions in equivalent securities, irrespective of the length of time the institution may carry its short positions.

Report in item C2 the principal amount of money (measured at book value, including accrued interest) to be received by the institution from maturing secured lending transactions (other than securities swap transactions) not included in item C1 within the LCR period by the type of underlying collateral.[44]

Report in the specific currency columns for items C1 and C2 the principal amount based on the currency denomination of the money (or the currency denomination of the securities in case of securities swap transactions included in item C1) to be received by the institution. In other words, it is not necessary for the institution to consider the

---

[43] To avoid doubt, a long-term liability or obligation may render a category 1 institution liable to pay interest within the LCR period. Such interest payable should be included in the calculation of the institution's LCR even although the long-term liability or obligation may not be included.

[44] As provided in clause 25 of the CoP, a secured lending transaction entered into by a category 1 institution is not regarded as being collateralized by an asset that falls within level 1 assets, level 2A assets, approved RMBS or other level 2B assets unless that asset satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

currency denomination of the underlying collateral obtained from (hence to be returned to) the counterparty.[45]

C3 Securities swap transactions not covered in item C1

If the reporting institution has any securities swap transactions which are not covered in item C1 and are due for settlement within the LCR period, complete Table 4 in Section (II) of this Part, which will generate the required figures for item C3.

In Table 4, report, in the appropriate rows, the principal amounts (measured at fair value) of securities to be received by the reporting institution within the LCR period under the maturing securities swap transactions it has entered into. In order to determine the row under which a particular securities swap transaction should be reported, the institution should ascertain the type of securities to be received by it and the type of securities to be delivered to its ~~by the~~ counterparty within the LCR period.[46]

If the reporting institution (or its counterparty) is contractually allowed to select securities from a list of allowable types of securities (with different levels of quality and liquidity value) for delivery ~~to each other~~ in a securities swap transaction, and the institution (or its counterparty) has not confirmed what type of securities the institution (or its counterparty) will deliver under the transaction, the institution should assume ~~for the sake of prudence~~ that it (or its counterparty) will select from the list the type of securities to be delivered in the order specified in paragraph 22 of these CIs.

Using the example provided in item B9 (in which case Bank B is the reporting institution for the purposes of item C3), Bank B's cash-flow positions arising from the securities swap transactions are reciprocal to those of Bank A. Therefore Bank B should report the expected cash inflow arising from the securities swap transactions in Table 4 as follows:

(HK$'000 equivalent)

	Type of securities to be received by reporting institution from counterparty within the LCR period	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Principal amount of securities to be received by reporting ~~the~~ institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HKD	USD	Other major $	RMB	Other $
(b) ~~a)~~	level 1 assets	level 2A assets	1000	15%	150	150	0	0	0	0
(i) ~~g)~~	level 2A assets	assets that are not level 1 assets, level 2A assets or	780	85%	663	0	663	0	0	0

[45] For example, if the reporting institution will receive a sum of money in Hong Kong dollars upon the maturity within the LCR period of a secured lending transaction which is collateralized by a security denominated in US dollars, the institution should report the money receivable in the "HKD" column instead of the "USD" column.

[46] As provided in clause 25(4) of the CoP, a security to be received, or delivered, by a category 1 institution under a securities swap transaction is not regarded as a level 1 asset, level 2A asset, approved RMBS or other level 2B asset unless the security satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

	Type of securities to be received by reporting institution from counterparty within the LCR period	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Principal amount of securities to be received by reporting ~~the~~ institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HKD	USD	Other major $	RMB	Other $
		level 2B assets								
~~(k)~~		~~Sub-total~~**Total**	1780		813	150	663	0	0	0

C4 Secured and unsecured loans not otherwise covered in items C1, C2 and C3

Report in this item the book value of repayments (including interest payments and instalments) from loans, whether secured or unsecured, that are contractually due within the LCR period (and not captured in other cash inflow items).

Report in sub-item 4(a) contractual cash inflows from revolving loans or loans without a specific maturity date. To avoid doubt, a loan drawn on a revolving facility (whether committed or uncommitted) should be reported in this sub-item, unless the loan will be fully repaid and the facility will be cancelled upon its expiry within the LCR period because the institution has decided (as evidenced in the institution's credit records) that the facility will not be renewed and hence any outstanding loan balance will have to be settled by the borrower upon expiry of the facility within the LCR period. In such a situation, contractual cash inflows from settlement of the loan can be reported in sub-item 4(b).

Sub-item 4(b) captures contractual loan repayments not covered in sub-item 4(a) that fall due within the LCR period. Such loans should be reported with a breakdown by types of borrower. To avoid doubt, whilst a loan that is revolving or does not have a specific maturity date is usually not captured in this sub-item (save for situations where a revolving loan can meet the conditions specified above), any periodic repayment of principal, interest, fee or other income generated from such loans can be included in this sub-item.

C5 Release of balances maintained by the reporting institution in segregated accounts in accordance with requirements for protection of customer assets

If the reporting institution is subject to any investor protection regulations that require the institution, upon receipt of assets (whether in cash or other assets) from customers for investment purposes, to maintain an amount of those assets as prescribed in those regulations in a segregated account, the institution may report the assets maintained in that segregated account as cash inflows under this item, provided that the assets meet the conditions set out in rule 25(a) and (b), meaning that they are HQLA qualifying assets that can fulfil the characteristic requirements set out in Schedule 3 to the BLR, and the assets will be released from the segregated account within the LCR period and the corresponding assets payable to customers have been reported in the cash outflow sub-item B6(b).

C6 Maturing securities not included by the reporting institution in its HQLA

Report in this item the book value of securities held by the reporting institution (including accrued interest) if the securities will be redeemed within the LCR period and they are not included in the stock of HQLA of the institution. Interest to be accrued (and receivable by the institution) within the LCR period should also be reported in this item.

C7 Undrawn facilities granted by other financial institutions

Report in this item the undrawn portion of any credit, liquidity or other facilities granted by other financial institutions, irrespective of whether the facilities are committed facilities.

C8 Operational deposits placed at other financial institutions

Report in this item any amount of money placed by the reporting institution at other financial institutions if the institution is satisfied that the money placed is treated as operational deposits by those financial institutions. The methodology adopted by the institution for calculating this cash inflow item should be in line with the methodology adopted by it for determining the amount of operational deposits received by it (as referred to in item B5).

C9 Contractual net cash inflows arising from derivative contracts

Follow the CIs provided in **Annex 5** for completing Table 5 of Section (II) of this Part, which will generate the required figures for this item.

C10 Other contractual cash inflows arising from assets, transactions or activities not otherwise covered in Section (I)C

Report in this item ~~other~~ contractual cash inflows not covered in other cash inflow items by type of customer, provided that the inflows are generated from assets, transactions or activities conducted by the reporting institution and expected to be received by the institution within the LCR period. This item may capture expected cash inflows arising from, for example, forward transactions and amounts receivable from transactions awaiting settlement (see paragraph 25 and **Annex 2**), dividend receivable, and interest receivable (if the interest has not been included elsewhere) within the LCR period. Nonetheless, cash inflows arising from non-financial activities should be excluded.

In the case of uncollateralized securities lending transactions maturing within the LCR period, the contractual cash inflow (either in cash or other assets that qualify for

inclusion as HQLA upon receipt by the institution) can be counted in this item. If the cash inflow is an asset that can qualify as a level 2A or level 2B asset upon receipt by the institution, report in this item the fair value of the asset after applicable haircut. If an uncollateralized securities lending transaction (or any similar transaction) does not have a definite term to maturity, assume the transaction will be carried forward beyond the LCR period, and therefore the cash inflow to be generated upon the settlement of the transaction cannot be included in the calculation of the LCR.

PART 3: LIQUIDITY MAINTENANCE RATIO

General requirements for reporting of LMR

31. For the purposes of the LMR, a category 2 institution should –

(i) calculate the "weighted amount" of an asset, liability, obligation or cash flow item by multiplying the principal amount (please refer to paragraph 7 of these CIs) of that item as determined in accordance with Part 8 (as read with Schedule 5) of the BLR by the liquidity conversion factor (LCF) applicable to that item;

(ii) ascertain that each of the assets (either owned by the reporting institution or received by the institution from its counterparty as collateral that can be re-hypothecated) to be included in the stock of liquefiable assets meets the qualifying criteria set out in rule 49. In particular, the assets must be free from encumbrances (see rule 49(2)(c))[47] and freely transferrable and available to the institution (see rule 49(2)(e)). If an asset held by the institution's consolidated group member is subject to liquidity transfer restriction, rule 49(3) requires that the asset concerned must not be included in the institution's liquefiable assets except to the extent that the qualifying liabilities (after deductions) of the member are also included in the calculation, provided that the asset concerned can satisfy all other relevant requirements specified in rule 49(1) and (2).[48]

---

[47] The guidance provided in Annex 1 of SPM module LM-1 is applicable for category 2 institutions to assess whether an asset is "free from encumbrances" ~~In determining whether an asset can meet the requirement of "free from encumbrances" set out in rule 49(2)(c) for inclusion as liquefiable assets under the LMR, a category 2 institution should take into account the criteria set out in section 3(2) of Schedule 4 to the BLR (in respect of HQLA under the LCR) which are also relevant~~ for LMR purposes (with all necessary modifications).

[48] For example, if a category 2 institution has the following positions:

Weighted amount (after offsetting intragroup assets and liabilities)	Hong Kong Office	Specified associated entity (or overseas branch)
Liquefiable assets	$2,000	$400
Qualifying liabilities	$6,000	$300
Deduction from qualifying liabilities	$1,000	$100

The institution should calculate its LMR covering the specified associated entity or overseas branch (i.e. on a consolidated basis or unconsolidated basis, as the case may be) as follows:

(i) If the assets held by the specified associated entity (or overseas branch) are freely transferrable to the institution's Hong Kong Office: LMR (con. / uncon. basis) = (2000 + 400) / {(6000 + 300) – (1000 + 100)} = 46.15%.

(ii) If the assets held by the associated entity (or overseas branch) are subject to liquidity transfer restriction: LMR (con. / uncon. basis) = (2000 + min(400, (300 – 100)) / {(6000 + 300) – (1000 + 100)} = 42.31%

(iii) determine whether the "remaining term to maturity" of an asset, liability or obligation falls within the LMR period having regard to the approach set out in paragraph 11 of these CIs and the following illustrative examples:

	Position Date			
	31.1.2015	28.2.2015	29.2.2015*	30.4.2015
Remaining term to maturity	Period Covered			
not more than 1 month	1.2.15 - 28(29*).2.15	1.3.15 - 28.3.15	1.3.15 - 29.3.15	1.5.15 - 30.5.15
more than 1 month but not more than 1 year	1.3.15 - 31.1.16	29.3.15 - 28.2.16	30.3.15 - 28.2.16	31.5.15 - 30.4.16
not more than 1 year	1.2.15 - 31.1.16	1.3.15 - 28.2.16	1.3.15 - 28.2.16	1.5.15 - 30.4.16
more than 1 year but not more than 5 years	1.2.16 - 31.1.20	29.2.16* or 1.3.16 - 28.2.20	1.3.16 - 28(29*).2.20	1.5.16 - 30.4.20
more than 5 years	1.2.20 onwards	29.2.20* or 1.3.20 onwards	1.3.20 onwards	1.5.20 onwards

**Assuming 29 days in February*

(iv) follow the CIs provided in **Annex 7** to treat the assets, liabilities, obligations or cash flows arising from spot and forward foreign exchange transactions, derivative contracts, securities transactions, forward forward deposit transactions and repo-style transactions.

Section (I): Liquidity Maintenance Ratio (month-end position)

32. In this Section, a category 2 institution should report the components of its LMR based on its ~~the position as at the~~ month-end position ~~reporting date~~ in accordance with the following:

Section (I)
Ref. no.

A. LIQUEFIABLE ASSETS

(A2) Gold bullion

Report in this item gold bullion (measured at fair value), which is confined to the reporting institution's proprietary holdings in gold bullion (either safe-kept in its vault or by a custodian) that can be accessed readily by the institution. This item does not include any financial asset (such as unit trust fund, derivative contract, commodity-linked instrument, or any similar type of product) which causes the institution to take a

position in gold but does not necessarily enable the institution to have ready access to gold bullion.

(A3) Claims on, or reserves maintained with, the MA for the account of the Exchange Fund or central banks that are repayable to the reporting institution overnight, on demand, or on notice which expires on the first day of the LMR period

Report in this item the reporting institution's claims on, or reserves maintained with, the MA for the account of the Exchange Fund or overseas central banks only if these claims and reserves are repayable to the institution overnight (i.e. within 24 hours), on demand, or on notice which expires on the first day of the LMR period. If such claims or reserves cannot meet any of these criteria but are repayable to the institution within the LMR period, they should be reported in item (C1).

RMB funds placed by the reporting institution in a RMB Fiduciary Account opened with the RMB Clearing Bank in Hong Kong (which constitutes a claim on the ~~People's Bank of China (~~PBoC~~)~~) can be reported in this item if the funds are repayable to the institution overnight, on demand, or on notice which expires on the first day of the LMR period. RMB funds placed by the institution with the RMB Clearing Bank, but not in the RMB Fiduciary Account or with other AIs in Hong Kong or banks operating outside Hong Kong, do not constitute a claim on the PBoC and therefore cannot be reported in this item or item (C1). Such RMB funds should be regarded as interbank placements under sub-item (A4)(a) or item (C2), as the case may require.

(A4) Net due from banks of the reporting institution to be included in its liquefiable assets

If the reporting institution has any amount of net due from banks, report that amount in this item to the extent that the weighted amount of net due from banks included in this item does not exceed 40% of the institution's total weighted amount of qualifying liabilities (before deductions).

If the principal amount of one-month liabilities of the institution to other banks maturing within the LMR period exceeds the principal amount of one-month liabilities of other banks to the institution maturing within the same period (referred to in these CIs as "net due to banks"), the institution should refer to the CIs for items (B2) and (C2).

Back-to-back transactions[49] must not be included in this or any other item for the calculation of the LMR (please also refer to para. 9.2.4 of SPM module LM-2).

[49] Back-to-back transactions refer to those inter-office or intra-group transactions which typically involve two legs, one borrowing long (with maturity beyond one month) and the other lending short (with maturity within one month). Both legs of the transactions are for the same or similar amount and at the same or similar rate of

(A4)(a) Report in this sub-item total one-month liabilities of other banks to the reporting institution maturing within the LMR period. The institution's claims under export bills discounted and its holdings in marketable debt securities or prescribed instruments should be reported in items (A5) and (A6) respectively.

(A4)(b) Report in this sub-item total one-month liabilities of the reporting institution to other banks, including on-balance sheet liabilities and contingent liabilities (including any off-balance sheet obligations) maturing within the LMR period. Debt securities or prescribed instruments with a remaining term to maturity of not more than one month issued by the institution (together with any interest payable) should be reported in item (A8), unless alternative reporting under item (B3) is otherwise agreed by the MA (please refer to the CIs for item (A8).

(A4)(c) "Net due from banks" is the difference between sub-items (A4)(a) and (A4)(b). The weighted amount derived in sub-item (A4)(c) should be included as "liquefiable assets" under the LMR only up to 40% of the reporting institution's total weighted amount of "qualifying liabilities (before deductions)" (item (B4)) (referred to in these CIs as the ***40% cap***). Any excess amount over the 40% cap should be reported in item (C3) as "deduction from qualifying liabilities".

Numerical examples illustrating how a reporting institution should report its claims on (or reserves maintained with) the MA for the account of the Exchange Fund or overseas central banks (reported in item (A3)) and one-month interbank claims and liabilities (reported in item (A4) are provided in **Annex 8**.

(A5) Export bills

(A5)(a) Report in this sub-item the reporting institution's export bills drawn under letters of credit issued by banks which are payable at sight or within the LMR period. Also report export bills which are not drawn under letters of credit but accepted by banks and due for payment within the LMR period. However, sight bills which remain unpaid for 14 days after negotiation and usance bills which remain unpaid for 14 days after due date, or whose due date has been extended, should be excluded.

(A5)(b) Usance bills which are excluded from sub-item (A5)(a) may be included in this sub-item provided that they are covered by re-discounting facilities

---

interest and are, in most cases, rolled forward continuously. Such transactions typically involve no actual movement of funds, and hence should not be relied upon as a source of liquidity.

approved by the MA. A re-discounting facility will be approved only if it meets the following criteria:

(i) it is provided by a third party bank;
(ii) it is irrevocable before its expiry;
(iii) it allows usance bills to be re-discounted on a without recourse basis; and
(iv) it provides for the proceeds of bills re-discounted to be remittable to the reporting institution within the LMR period.

The amount to be reported under sub-item (A5)(b) should be net of any realisation costs or discounting charges the reporting institution may expect to incur.

(A6) Marketable debt securities or prescribed instruments

Report the reporting institution's marketable debt securities or prescribed instruments eligible for inclusion in this item for which the institution may receive payment within the LMR period (including any accrued interest) either upon maturity or through monetization of these securities / instruments in the secondary market.

(A6)(a)(i) Market makers for EF debt securities should report their positions in these instruments in accordance with the following:

(i) the long and short positions of such instruments with a remaining term to maturity of not more than one year should be offset against one other;

(ii) the long and short positions of such instruments with a remaining term to maturity of more than one year should similarly be offset against one other;

(iii) if the net positions in both (i) and (ii) above are long, they should be reported in sub-items (A6)(a)(i)(A) and (A6)(a)(i)(B) respectively;

(iv) if the net positions in (i) and (ii) are in opposite directions (i.e. one is long and the other is short), the long position should be reduced by the short position on a dollar-for-dollar basis. The resultant net long position, if any, should then be reported in the appropriate time band.

(A6)(b)-(e) For the purposes of determining whether a marketable debt security or/ prescribed instrument has a qualifying ECAI rating (either issue specific rating or issuer rating, as the case may require), the reporting institution

should follow the relevant requirements set out in Schedule 6 to the BCR and Schedule 5 to the BLR.

The qualifying ECAI rating for marketable debt securities or prescribed instruments under these sub-items generally relates to a qualifying ECAI issue specific rating that is assigned to the debt securities / instruments concerned. However, marketable debt securities or prescribed instruments which do not have a qualifying ECAI issue specific rating but ~~which~~ are issued~~,~~ or guaranteed~~,~~ by specific types of entities set out ~~specified~~ in sub-items A6(b) and A6(d)) that have a qualifying ECAI issuer rating may also be included as liquefiable assets.

(A6)(b) This sub-item captures marketable debt securities or prescribed instruments issued or guaranteed by the central bank or central government of a country, a multilateral development bank, or a relevant international organization, where the debt security or instrument, or its issuer or guarantor,~~which~~ has a qualifying ECAI rating.

(A6)(c)(i) This sub-item captures marketable debt securities or prescribed instruments issued or guaranteed by a bank, other than those included in sub-item (A6)(a)(ii), provided that the debt securities or instruments concerned have a qualifying ECAI issue specific rating.

(A6)(c)(ii) This sub-item captures marketable debt securities or prescribed instruments issued or guaranteed by a regional government of a country or by any other entity, provided that the debt securities or instruments concerned have a qualifying ECAI issue specific rating. "Other entity" for this purpose can be a financial institution (which is not a bank), a corporate or any other entity not specified elsewhere in item (A6).

(A6)(d)(i) This sub-item captures marketable debt securities or prescribed instruments without a qualifying issue specific rating, but which are issued or guaranteed by a bank (other than those debt securities or instruments captured in sub-item (A6)(a)(ii)), provided that the debt securities or instruments concerned have a remaining term to maturity of not more than one month or the issuer has a qualifying ECAI issuer rating.

(A6)(d)(ii) This sub-item captures marketable debt securities or prescribed instruments without a qualifying ECAI issue specific rating, but which are issued or guaranteed by a regional government of a country~~, provided~~ that ~~the issuer concerned~~ has a qualifying ECAI issuer rating.

(A6)(e) This sub-item captures any other marketable debt securities or prescribed instruments not included elsewhere in sub-items A6(a) to A6(d), but which

the reporting institution should be able to use in order to secure borrowing from the MA for the account of the Exchange Fund or the central bank of a country (which has a qualifying ECAI issuer rating) through a standing facility, the nature of which is similar to the Discount Window operated by the MA for the account of the Exchange Fund. To avoid doubt, such a standing facility does not include any emergency liquidity facility that may be provided by a central bank in stressed situations.

(A6)(f) This sub-item captures (i) RMBS[50] and (ii) any other marketable debt securities or prescribed instruments that have been approved specifically by the MA for inclusion as liquefiable assets under the LMR. ~~Such debt securities or instruments do not include those approved by the MA for inclusion under the Liquidity Ratio. In other words, all debt securities or instruments reported under this sub-item should have approval from the MA specifically for LMR purposes.~~

(A6)(g) This sub-item captures all marketable debt securities or prescribed instruments not reported elsewhere in item (A6) and with a remaining term to maturity of not more than one month.

(A7) Residential mortgage loans in respect of which there has been issued by The Hong Kong Mortgage Corporation Limited (HKMC) an irrevocable commitment to purchase which is approved by the MA

The MA's prior approval is required for reporting any mortgage loan in this item.

Report in this item the reporting institution's residential mortgage loans covered by The HKMC's irrevocable Forward Commitment Facility (Facility) that are immediately saleable to The HKMC. Such loans should conform to The HKMC's purchasing requirements and satisfy any conditions as set out in its Forward Commitment Facility Letter Agreement (Facility Agreement) approved by the MA for this purpose. The total reported amount cannot exceed the amount of commitment agreed under the Facility (less any commitment amount utilised).

---

[50] The criteria that the MA will take into account in assessing an application submitted by a category 2 institution for inclusion of RMBS as liquefiable assets under the LMR are essentially the same as those set out for the LCR purposes (as provided in section 8 of Schedule 2 to the BLR). Please refer to the guidance provided in Annex 2 of SPM module LM-1.~~The applying institution should be able to demonstrate to the MA's satisfaction that the relevant issue of RMBS can meet all of the relevant qualifying criteria as well as the general requirements that are applicable to liquefiable assets. The MA will also assess (i) the institution's ability to manage the relevant risks of holding RMBS, as reflected from its relevant risk management policies, procedures and exposure limits; and (ii) the institution's overall risk management capability as observed by the HKMA in the course of its ongoing supervision. An application without the required self assessment provided by the applying institution will not be considered.~~

If The HKMC, under the Facility Agreement, requires the institution to repurchase defaulted mortgage loans, the obligation to repurchase such mortgage loans should be included in the institution's qualifying liabilities for the calculation of its LMR if the repurchase is to be made within the LMR period.

(A8) Deduction from liquefiable assets – Debt securities or prescribed instruments with a remaining term to maturity of not more than 1 month issued by the reporting institution

Report these securities or instruments in this item, measured at book value (including accrued interest and any interest payable by the reporting institution upon redemption of these securities or instruments within the LMR period). Alternatively, these liabilities may be reported in item (B3) if the reporting institution can demonstrate to the satisfaction of the MA that the liabilities will be rolled over or refinanced upon maturity. The MA will require reasonable assurance from the institution that, by reference to ~~based on~~ past experience where appropriate, the maturing liabilities will in all likelihood ~~would~~ be refinanced ~~replaced~~ and are not simply "one-off" transactions. This might apply, for example, where the institution is able to tap a reliable pool of investors through regular issues of certificates of deposit.

B. QUALIFYING LIABILITIES

(B1) Total one-month liabilities of the reporting institution to the MA for the account of the Exchange Fund or central banks

Report in this item the reporting institution's liabilities to the MA for the account of the Exchange Fund or central banks (if any), including liabilities repayable on demand or having a remaining term to maturity of not more than one month.

(B2) If the reporting institution's total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the institution's total one-month liabilities to other banks

This item should be reported by the reporting institution only if its "net due to banks" is greater than zero, and should cover the institution's total one-month liabilities to banks. Total one-month liabilities of banks to the institution should be reported under item (C2).

(B3) Other one-month liabilities

Report in this item the reporting institution's deposits and other liabilities payable (including interest payable) within the LMR period which are not included elsewhere. This item includes, for example –

(i) the institution's irrevocable commitments[51] to provide funds to its customers on a known date of draw-down within the LMR period or irrevocable standby facilities which can be drawn upon by the institution's customers on demand, at call or on notice that will expire within the LMR period.

(ii) contingent liabilities (other than trade-related contingencies)[52];

(iii) contractual payments within the LMR period arising from derivative contracts (see **Annex 7**); and

(iv) fee or interest payable within the LMR period, if not already included elsewhere.[53]

---

[51] Please refer to the guidance provided in paragraphs 5.8.22, 6.3.3 and 6.3.4 of SPM module LM-1 ~~footnote 33~~ for determining the liquidity requirements for ~~the intended meaning of~~ "irrevocable commitments".

For LMR purposes, undrawn facility limits granted by an AI under overdraft and credit card facilities can be disregarded when the AI determines the amount of its qualifying liabilities. ~~(This is because, as observed by the HKMA, the actual utilisation of the credit limits under these types of facilities appear to be relatively low as compared to that of other types of facilities.)~~ -This exception will not be applicable if an AI grants a multi-purpose facility that allows a customer to draw on various types of loans in addition to overdraft or credit card advances, and there exists any lending commitment which is irrevocable. ~~For example, an AI's lending commitment under a trade financing facility should be regarded as irrevocable notwithstanding the possibility that the customer may be allowed to draw overdraft advances under that facility.~~

[52] For example, in the case of an undertaking by a reporting institution under a letter of guarantee (or any contract having a nature similar to a letter of guarantee, such as a standby letter of credit):

(i) if a guarantee issued by the institution has been called upon resulting in the institution having an irrevocable commitment to pay on this guarantee within the LMR period, the amount payable by the institution under such an irrevocable commitment should be reported in this item;

(ii) if a guarantee issued by the institution contains provisions to the effect that the institution will have an obligation to (A) pay within the LMR period in case the guarantee is called upon (where the notice period for the guarantee is within the LMR period); or (B) pay on demand (where no notice period is required), the contingent liability under the guarantee should also be reported in this item regardless of whether it has been called upon, except in cases where any condition attached to the execution of the guarantee cannot in practice be met within the LMR period. Nonetheless, trade-related contingencies (such as shipping guarantee) are not subject to this treatment (unless, as discussed in (i), the contingent liabilities have been called upon and the liabilities are contractually payable within the LMR period).

"***Trade-related contingency***" has the meaning given by section 2(1) of the BCR. It refers to a contingent liability which relates to trade-related obligations, including liabilities arising from issuing and confirming letters of credit, acceptances on trade bills, and shipping guarantees. For clarity's sake, a credit limit under a trade financing facility granted by a reporting institution is not "trade-related contingency".

[53] For example, if the reporting institution has a liability maturing beyond the LMR period but that liability will create any fee or interest payable by the institution within the LMR period, the fee or interest payable should be included as "qualifying liabilities". If the reporting institution is able to identify that the fee or interest will be payable to a particular type of counterparty, it should report the amount of fee or interest payable to that type of counterparty in the appropriate items (e.g. item (A4)(b) or item (B2) as the case requires, if the fee or interest is payable to a bank~~banks~~). If the institution cannot identify readily the type of counterparty, it should report the interest payable in item (B3).

In the case of the sale or purchase of securities conducted by the reporting institution on behalf of the institution's clients (including brokers), the amount payable to these clients arising from such transactions can be excluded from this item, even if the transactions are due for settlement within the LMR period.[54] Similarly, the corresponding receivables from the institution's clients (including brokers) should not be included as "deduction from qualifying liabilities" (please refer to subsection C of this Return). Such reporting treatment is also applicable to account receivables and payables arising from margin trading transactions which are valued but not yet settled. Such transactions refer to those margin trading positions with respect to which the institution's clients have not given any instruction to close out. Margin deposits arising from such transactions should however be included as qualifying liabilities of the institution where appropriate.

If a deposit is contractually pledged to the reporting institution as collateral to secure a loan granted by the institution to a non-bank customer, the pledged deposit can be excluded from the calculation of the LMR, subject to the following conditions:

(i) the loan will not be settled within the LMR period;

(ii) the pledge arrangement is subject to a legally enforceable contract that effectively disallows withdrawal of the deposit before the loan is fully settled;

(iii) the deposit would otherwise be included in the calculation of qualifying liabilities; and

(iv) the amount of deposit to be excluded must not exceed the outstanding balance of the loan (or the drawn portion of a facility).

The above reporting treatment does not apply to a deposit which is pledged against an undrawn facility (or the undrawn portion of a partially drawn facility). Please refer to the CIs for item (C4) re the reporting of eligible loan repayments secured by deposits placed with the institution. Deposits which are pledged with the institution to secure other off-balance sheet obligations should be reported as qualifying liabilities. Nevertheless, such deposits may be excluded from the institution's qualifying liabilities to the extent that they are pledged to secure off-balance sheet obligations that are also required to be reported as qualifying liabilities.[55]

---

[54] Such transactions can be excluded given that they are not proprietary transactions and the liquidity risk involved is considered to be relatively low.

[55] For example, a deposit pledged with the reporting institution to secure a guarantee issued by the institution should be reported as a qualifying liability if the deposit can be withdrawn from the institution within the LMR period. If however the guarantee issued by the institution is called upon, resulting in the institution having to honour its obligation under the guarantee within the LMR period (hence creating a qualifying liability under the guarantee), then the pledged deposit does not need to be counted as a qualifying liability. This is based on the ~~to avoid double counting in that it is~~ reasonable expectation that ~~to expect~~ the institution

C. DEDUCTIONS FROM QUALIFYING LIABILITIES

(C1) Total one-month liabilities of the MA for the account of the Exchange Fund, or central banks to the reporting institution (other than the amount included in item (A3))

Report in this item total one-month liabilities of the MA for the account of the Exchange Fund or central banks to the reporting institution (other than the amount of such liabilities that is repayable on demand or withdrawable within 24 hours should be reported as liquefiable assets in item (A3)).

(C2) If the reporting institution's total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the total one-month liabilities of other banks to it

This item should be reported by the reporting institution only if the principal amount of its "net due to banks" is greater than zero, and should capture total one-month liabilities of banks to the institution. The institution's total one-month liabilities to banks should be reported in item (B2).

(C3) Weighted amount, if any, of the reporting institution's net due from banks exceeding the 40% cap referred to in BLR rule 48(7)

This item should be reported by the reporting institution only if the weighted amount of its "net due from banks" exceeds the 40% cap specified in sub-item (A4)(c). The institution should report the excess amount in this item as a deduction from its qualifying liabilities.

(C4) Eligible loan repayments

Report in this item any loan repayment (including principal and interest receivable) from the reporting institution's non-bank customers which (i) fall due within the LMR period and (ii) satisfy the eligibility criteria set out in the definition of "eligible loan repayment" provided in Schedule 5 to the BLR. This item should exclude any repayment in respect of mortgage loans reported in item (A7).

For the purposes of this item, a loan is regarded as fully performing if there are no arrears of principal or interest in respect of the loan. Where the payment date(s) of principal or interest of a loan has been "rescheduled", including the roll-over of a loan

---

will ~~to~~ use the pledged deposit to cover its liability or obligation under the guarantee (hence no additional liquidity is required for repaying the pledged deposit).

on its original due date or the re-negotiation of a loan's payment terms in advance of maturity, the loan can still be regarded as fully performing provided that –

(i) the rescheduling of payment dates is not caused by a deterioration in the financial position of the borrower or of his ability to meet the original repayment schedule; and

(iii) the revised payment terms are not "non-commercial" to the institution.

Loans repayable by instalments at an interval of not more than one month (e.g. residential mortgage loans, hire purchase loans and personal loans) will still be regarded as fully performing if there is no instalment which is overdue for more than one month on the reporting date.

Loans falling due within the LMR period that have revolving features, i.e. where the institution has a commitment to provide finance to the borrower under a facility on an ongoing basis, should not be included in this item. However, such revolving loans can be included as eligible loan repayments when both the outstanding loan and the facility are due to mature or expire within the LMR period and the institution has made no commitment, either verbally or in writing, to renew the facility upon its expiry.

The reporting of repayments of loans which are secured by deposits pledged with the institution should be based on a cash-flow concept. The following table illustrates how the loan repayments and the pledged deposits, both of which are due within the LMR period, should be reported:

	Amount to be included in			
Scenario	Eligible Loan Repayments		One-month liabilities	
	(A)	(B)	(A)	(B)
L = D	-	R*	-	-
L > D	R - D	R*	-	-
L < D	-	R*	D - L	D – L

(A) = in the case of a loan, including a loan to be repaid by instalments, the outstanding balance of which will be fully repaid within the LMR period

(B) = in the case of a loan the outstanding balance of which will not be fully repaid within the LMR period

L = outstanding balance of the loan

D = amount of the pledged deposit

R = repayment(s) of the loan due within the LMR period

* = to the extent that the repayments will not be used to reduce the amount of the deposit or interest payable on the deposit.

Where the pledged deposit matures beyond the LMR period, a repayment of the loan due within that period can be included as eligible loan repayment.

Section (II): Average Liquidity Maintenance Ratio during the reporting period[56]

33. A category 2 institution should report its average LMR during the reporting period ~~(i.e. the calendar month ending on the month-end reporting date)~~ in this Section. The average LMR is expressed as the ratio of "average liquefiable assets" (item A) to "average qualifying liabilities (after deductions)" (item B). The two items should be calculated by dividing the sum of the weighted amounts of liquefiable assets, or the sum of the weighted amounts of qualifying liabilities (after deductions), as the case may be, maintained by the reporting institution at the close of business on each working day during the reporting period, by the number of working days during that period. If the institution has been approved by the MA to calculate its average ~~monthly~~ LMR on the basis of specified days within ~~during~~ a calendar month, it should calculate the average liquefiable assets and average qualifying liabilities (after deductions) by dividing the sum of the weighted amounts of liquefiable assets, or the sum of the weighted amounts of qualifying liabilities (after deductions), as the case may be, maintained by the institution at the close of business on each of the specified days within ~~during~~ the reporting period by the number of such specified days within ~~during~~ that period. If any such specified day is a public holiday, the immediately preceding working day should be taken for the purposes of such calculation.

Hong Kong Monetary Authority
~~December 2014~~
January 2017

[56] ~~Rule 7 of the BLR provides that a category 2 institution must maintain an LMR of not less than 25% on average in each calendar month. In line with the existing requirements under the Liquidity Ratio, the average LMR will cover each working day of a calendar month, unless a category 2 institution is permitted to calculate this average ratio by reference to such days during the month as specified by the MA (re rule 48(1) & (2)).~~

Annex 1

Framework for adoption of ALA Option 2 in Hong Kong[57]

Background

1. Pursuant to rule 37, a category 1 institution that is running a HKD LCR mismatch may use a portion of its foreign currency-denominated HQLA (which must be level 1 assets) to cover its HKD LCR mismatch, provided that the conditions set out in that rule are met fully.~~"rule 37 institution" –~~

   ~~(i) has a genuine need to use such HQLA (which have not already been used by the institution to cover its foreign currency-denominated total net cash outflows) to comply with the minimum LCR requirement;~~

   ~~(ii) possesses necessary systems and capacity to manage foreign exchange risk associated with the use of such HQLA;~~

   ~~(iii) always holds an amount of HKD-denominated HQLA (which must be level 1 assets) that is not less than 20% of the institution's HKD-denominated total net cash outflows ("20% minimum holding requirement"); and~~

   ~~(iv) subject such HQLA to foreign exchange haircuts (as required under rule 38).~~

2. It is not the MA's intention to require case-by-case approval of the use the provisions of rule 37 by individual category 1 institutions. However, a rule 37 institution should be able to demonstrate its compliance with rules 37 and 38 upon request by the MA.

Relevant parameters for operation of rules 37 and 38

~~3. The minimum LCR requirement (for the "all-currencies" LCR standard) will increase from 60% in 2015 to 100% in 2019 under the phase-in implementation timetable. Assuming that the same level of HKD liquidity coverage applies in respect of HKD-denominated HQLA versus HKD-denominated total net cash outflows, the maximum level of HKD LCR mismatch that can be covered by foreign currency-denominated HQLA (level 1 assets) pursuant to rule 37 can be determined by reference to the 20% minimum holding requirement referred to in paragraph 1 of this Annex. That is, if the minimum LCR requirement is 100% (and the same level of HKD liquidity coverage is expected), the maximum usage of foreign currency-denominated HQLA for rule 37 purposes will be 80% (= 100% – 20%) of HKD-denominated total net cash outflows.~~

---

[57] ALA Option 2 refers to the second option set out in paragraphs 59 to 61 of the 2013 BCBS LCR Document that banks in jurisdictions with insufficient HQLA may be allowed to adopt (subject to meeting various criteria set out in the Document). Rules 37 and 38 provide for the use of this option in Hong Kong. ~~LM-1 (under revision) will provide supplementary guidance on the ALA framework where appropriate.~~

34. The use of foreign currency-denominated HQLA to cover HKD LCR mismatch is subject to foreign exchange haircuts if the level of usage exceeds a certain threshold (as specified in rule 38(2)[58]). Such haircuts are – [59]

		Foreign exchange haircuts
(a)	Level 1 assets denominated in US dollars	2%
(b)	Level 1 assets denominated in other major currencies with global transaction volume exceeding 10% of total global foreign currency market turnover (i.e. EUR, JPY and GBP)	8%
(c)	Level 1 assets denominated in any other foreign currency that is freely convertible into Hong Kong dollars (including RMB assets that meet relevant qualifying criteria as HQLA)	10%

45. The threshold for triggering the application of foreign exchange haircuts will be 25% of a rule 37 institution's HKD-denominated total net cash outflows (in line with the Basel LCR standard) when the minimum LCR requirement reaches 100% on 1 January 2019. This means that the relevant portion of foreign currency-denominated HQLA subject to foreign exchange haircuts will not exceed an amount equivalent to 55% (= 100% – 20% – 25%) of HKD-denominated total net cash outflows. The threshold will be correspondingly adjusted based on the prevailing minimum LCR requirement during the phase-in period.

56. Based on the above reasoning, theThe relevant parameters in relation to the use of ALA Option 2 are summarised as follows:

	A	B	C	D	E
	Minimum. LCR requirement (=expected level of HKD liquidity coverage)	Condition under rule 37(d): HKD-denominated level 1 assets not less than 20% of HKD-denominated total net cash outflows	Allowable usage of foreign currency-denominated level 1 assets to cover HKD LCR mismatch **(= A – B)**	Allowable level of cross-currency liquidity coverage (i.e. portion of **C** not subject to foreign exchange haircuts) = **Max(0, 25% - (100% - A))**	Portion of **C** subject to foreign exchange haircuts **(= C – D)**
2015	60%	20%	40%	Nil	40%
2016	70%	20%	50%	Nil	50%
2017	80%	20%	60%	5% (= 25% - (100% - 80%)	55%
2018	90%	20%	70%	15% (= 25% - (100% - 90%)	55%
2019 onwards	100%	20%	80% (max level set by BCBS)	25% (max level allowed by BCBS)	55%

[58] As provided in reflected from rule 38(2), foreign exchange haircuts do not apply to the relevant portion (or that part of the relevant portion) of foreign currency-denominated HQLA, held by a category 1 institution to cover its HKD LCR mismatch, that is not more than 25% of the institution's HKD-denominated total net cash outflows.

[59] Please refer to L3 (paragraph 59) for the underlying concepts and methodologies adopted by the HKMA to determine the respective haircuts for ALA purposes.

67. The example below demonstrates the methodology underlying Table 2 of Section (II) of this Return for calculating the amount of haircuts on foreign currency-denominated level 1 assets if the reporting institution uses such assets to cover its HKD LCR mismatch.

(Unit: HKD'000 equivalent)

		Total	HKD	USD	Other major $	RMB	Other $
1	Total level 1 assets (before deductions) (= Section (I), item A1(f))	3200	1200	200	100	500	1200
2	Total level 2A assets (before deductions) (= Section (I), item A2(d))	2400	300	500	800	200	600
3	Total level 2B assets (before deductions) (= Section (I), item A3(c))	100	0	0	100	0	0
4	Total HQLA (before deductions) (= Section (I), item A4)	5700	1500	700	1000	700	1800
5	Total expected cash outflows (= Section (I), item B23)	10500	5000	2000	1500	1000	1000
6	Total expected cash inflows (before application of 75% inflow ceiling) (= Section (I), item C11)	5200	1000	1200	1000	1200	800
7	HKD LCR mismatch (= Max(item 13*(item 5 – item 6) – item 4, 0))		900				
8	The part of item 7 that exceeds 25% of the reporting institution's HKD-denominated total net cash outflows (=Max (If (item 7 = 0, 0, item 7 – Max(item 5 – item 6,0)* Max(0, 25% – (100% – item 13))) ,0)		900				
9	HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before adjustment for 75% inflow ceiling)~~:~~ (Note: Rule 37(d) is satisfied if item 9 =/> 20%)	Yes / No/ N/A					
10	Foreign currency-denominated HQLA (level 1 assets) exceeding foreign currency-denominated total net cash outflows (if any) (=Min (Max (item 4 – item 13* Max (item 5 – item 6,0),0), item 1))			200	100	500	1200
11	Relevant portion of item 10 being used to cover HKD LCR mismatch			200	100	500	100
12	Foreign exchange haircuts			2%	8%	10%	10%
		72		**4**	**8**	**50**	**10**
13	Minimum required level of LCR applicable to the reporting institution	Note					

Note: 60% for 2015, 70% for 2016, 80% for 2017, 90% for 2018, 100% for and after 2019

Explanatory Notes

- In this example, a category 1 ~~The figures in items 1 to 6 are copied from those reported by a category 1 institution in Section (I) of this Return. In this example, the~~ institution has a HKD LCR mismatch of HK$900 (item 7). If the institution uses foreign currency-denominated HQLA (which must be level 1 assets) to cover this amount of HKD LCR mismatch, a portion of these foreign currency-denominated HQLA (also equivalent to HK$900 in this specific example, as indicated in item 8) will be subject to foreign exchange haircuts.

- Item 9 reflects whether the ~~reporting~~ institution meets ~~is able to meet~~ the 20% minimum holding requirement for HKD-denominated HQLA (which must be level 1 assets). If the institution is unable to observe this requirement, it must notify the MA immediately, so that the MA may consider ~~deliberate~~ appropriate supervisory measures to address ~~cater for~~ this situation. (See SPM module LM-1 (paragraphs 5.7.6 to 5.7.9)).

- Item 10 calculates the surplus amount of foreign currency-denominated HQLA (level 1 assets) that can be used to cover HKD LCR mismatch. In this example, the reporting institution has surplus level 1 assets in USD (equivalent to HK$200), other major currencies (equivalent to HK$100), RMB (equivalent to HK$500) and other currencies (equivalent to HK$1200).

- Item 11 determines the amount of foreign currency-denominated HQLA (level 1 assets) that are actually required to cover HKD LCR mismatch. In determining the order of usage of foreign currency-denominated HQLA to cover HKD LCR mismatch, it is assumed that foreign currency assets that are subject to lower ~~the lowest~~ foreign exchange haircuts will be utilised first.~~, followed by other foreign currency-denominated assets by an ascending order of the level of foreign exchange haircut applicable to those assets.~~ The order of usage is therefore assumed to follow this order: (i) USD, (ii) other major currencies (EUR, JPY, GBP); (iii) RMB; and (iv) other currencies. In this example, the surplus level 1 assets denominated in USD (HK$200) will be utilised first, followed by the surplus level 1 assets denominated in other major currencies (HK$100), then level 1 assets denominated in RMB (HK$500) and finally level 1 assets denominated in other currencies (up to an amount equivalent to HK$100).~~, which is used to cover the remaining portion of HKD LCR mismatch not yet covered after using all surplus HQLA in USD, other major currencies and RMB).~~

- Item 12 calculates the total amount of foreign exchange haircut resulting from the use of the relevant portion of foreign currency-denominated HQLA (level 1 assets) to cover HKD LCR mismatch. This total amount of foreign exchange haircut is transposed ~~mapped~~ to item A6 of Section (I) of Part 2 of this Return for calculating the total amount of HQLA (after deductions).

Annex 2

Treatment of cash flows arising from forward contracts and transactions awaiting settlement under the LCR

1. The term "forward contract" means a contract between two parties for entering into a transaction (e.g. to provide a loan of money, or to purchase, sell or exchange a specified quantity of ~~a specified~~ commodity, currency, financial instrument or thing) at a specified price on a specified future date (Day F). Some forward contracts may have a definite termination date (Day T). On Day F (and Day T where applicable), the counterparties to the contract will incur cash (or asset) inflows or outflows, which should be treated under the LCR according to the requirements set out below.

2. If the reporting institution has entered into a forward contract with a counterparty where Day F falls within the LCR period and Day T falls after the LCR period (or Day T is not specified in the contract), the institution should report –

   (i) in item B22 of Section (I) of Part 2 of this Return, the contractual cash outflow to be paid by the institution on Day F[60]. If the institution will receive an asset that will qualify as HQLA on Day F (meaning that the asset will meet all the requirements under rule 25 upon receipt) under the forward contract (e.g. in the case of a forward asset purchase contract in which the institution is the asset buyer or a forward reverse repo contract in which the institution will receive collateral from the counterparty), the fair value of that asset (after application of haircuts in the case of a level 2A or level 2B asset) may be deducted from the contractual cash outflow arising from the contract; or

   (ii) in item C10 of Section (I) of Part 2 of this Return, the contractual cash inflow to be received by the institution on Day F. If the institution will deliver an asset on Day F under the forward contract, and the institution has counted that asset as HQLA (or has already re-hypothecated that asset to obtain funding), the fair value of that asset (after application of haircuts in the case of a level 2A or level 2B asset) should be deducted from the contractual cash inflow arising from the contract.

3. If Day F and Day T of a forward contract both fall within the LCR period, this contract is not considered under the LCR.[61]

---

[60] In case of a forward securities swap transaction, report in item B22, the fair value of the asset to be delivered by the institution on Day F, net of the fair value of any asset that will qualify for inclusion as HQLA once received by the institution on Day F. The fair value of the asset to be delivered or received by the institution on Day F should be determined after application of haircuts if the asset concerned is not level 1 asset.

[61] This treatment is provided in BCBS FAQ (April 2014) (no. 15) based on a simplified assumption that the cash flow to be generated on Day F (when the transaction is executed) and the opposite cash flow to be generated on Day T (when the transaction is terminated) will be offset exactly within the LCR period. The reporting

4. If Day F of the contract had occurred before the start of the LCR period whereas Day T of the contract falls within the LCR period, the contract can be treated as a spot contract awaiting settlement. The cash flows to be accounted for on Day T should be reported according to applicable requirements.[62]

institution should however notice that this assumption may not always be valid in the light of the possibility that (1) there may be a difference between cash inflows and outflows generated at different points of time, or (2) there exists a time gap between Day F and Day T even though these two points in time both fall within the LCR period. The institution should manage the relevant liquidity risks that are not captured under the LCR.

[62] For example, if a forward repo contract was executed on Day F which is prior to the LCR period and Day T falls within the LCR period, the contract should be captured in item B8 (instead of item B22) of Section (I) of Part 2 of this Return.

Annex 3
Completion instructions for Table 1 of Section (II) – Determination of adjustments to HQLA for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A and level 2B assets

1. If the reporting institution has entered into any securities financing transaction which will necessitate the exchange of an asset for another asset, both of which are eligible for inclusion as HQLA, within the LCR period, complete sub-items 2(d) to 2(f) of Table 1 ~~(re adjusted level 1, level 2A and level 2B assets)~~ by reversing the effect of the securities financing transaction from the institution's HQLA positions, as if the exchange of ~~the two~~ assets were executed on the day when the LCR is calculated. Table 1 will generate the ~~necessary~~ figure required for reporting under ~~of~~ item A5 in Section (I) of Part 2 of this Return. If the institution ~~has not entered into~~ does not have any such transaction outstanding, it~~, the institution~~ should report sub-items 2(d) to 2(f) of Table 1 in the same amounts as those derived in sub-items 1(f), 2(d) and 3(c) in Section (I)A of Part 2 of this Return.

2. An illustrative example for the completion of sub-items 2(d) to 2(f) of ~~in~~ Table 1, as well as the calculation of adjustments to HQLA for the 15% and 40% ceilings is provided below. To avoid doubt, the amounts shown in all illustrative tables in this Annex are ~~"~~weighted amounts~~" (i.e.~~ after applying the haircuts applicable to the assets~~)~~.

2.1 Bank X has maintained the following positions in HQLA holdings:

(Unit: HKD'000 equivalent)

Table (A)	Weighted amount ~~Total~~	HKD	USD	Other major $	Other currencies (incl. RMB)
Level 1 assets	2100	1000	600	500	0
Level 2A assets	1600	900	700	0	0
Level 2B assets	1900	800	800	300	0
Sum of level 1 assets, level 2A assets and level 2B assets (before deductions)	5600	2700	2100	800	0

2.2 Some of the above assets are obtained through the two securities financing transactions specified below, which will be due for settlement within the LCR period.

(Unit: HKD'000 equivalent)

Table (B)	Receivable upon settlement	Payable upon settlement
(1) Securities reverse repurchase transaction	level 1 asset in USD (post-haircut fair value equivalent to HKD100)	level 1 asset in HKD (post-haircut fair value equivalent ~~is equal~~ to HKD110)
(2) Securities swap transaction	level 2A asset in JPY (post-haircut fair value equivalent to HKD200)	level 2B assets in USD (post-haircut fair value equivalent to HKD220)

2.3 If the two securities financing transactions are reversed, Table (A) will be adjusted as follows (whilst the figures in yellow cells should be reported in items 2(d) to 2(f) of Table 1):

(Unit: HKD'000 equivalent)

Table (C)	Total	HKD	USD	Other major $	Other currencies (incl. RMB)
Adjusted level 1 assets	2090	890	700	500	0
Adjusted level 2A assets	1800	900	700	200	0
Adjusted level 2B assets	1680	800	580	300	0
Total	5570	2590	1980	1000	0

3. Using the above example, Table 1 will calculate the adjustment figures for the 15% ceiling and 40% ceiling by adopting the following steps:

3.1 Step 1: Before reversing any securities financing transaction, ~~calculate~~ the adjustments are calculated as follows based on ~~using~~ the data ~~figures~~ in Table (A) –

Adjustment for 15% ceiling
= Max (level 2B assets – 15/85*(level 1 assets + level 2A assets), level 2B assets – 15/60* level 1 assets, 0) = Max (1900 – 15/85*(2100 + 1600), 1900 – 15/60*2100, 0) = 1375

Adjustment for 40% ceiling
= Max ((level 2A assets + level 2B assets - adjustment for 15% ceiling) - 2/3* level 1 assets, 0)
=Max ((1600 + 1900 – 1375) – 2/3*2100, 0) = 725

Total adjustments for 15% ceiling and 40% ceiling = 1375+725 = 2100

3.2 Step 2: After reversing securities financing transactions, ~~calculate~~ the adjustments are calculated as follows based on ~~for~~ the data ~~15% and 40% ceilings using the figures~~ in Table (C) –

Adjustment for 15% ceiling
= Max (adjusted level 2B assets – 15/85*(adjusted level 1 assets + adjusted level 2A assets), adjusted level 2B assets – 15/60* adjusted level 1 assets, 0) = Max (1680 – 15/85*(2090 + 1800), 1680 – 15/60*2090, 0) = 1158

Adjustment for 40% ceiling
= Max ((adjusted level 2A assets + adjusted level 2B assets - adjustment for 15% ceiling) - 2/3* adjusted level 1 assets, 0);
= Max ((1800 + 1680 – 1158) – 2/3*2090, 0) = 929

Total adjustments for 15% ceiling and 40% ceiling = 1158+929 = 2087

3.3 Step 3: The more conservative outcome shown in Step 1 ~~–~~or Step 2 is transposed to ~~should be reported in~~ item A5 of Section (I) of Part 2 of this Return. (In this example, the final result ~~applicable outcome~~ is HKD2100 ~~as calculated in Step 1~~.)

Annex 4
Treatment of deposits taken by deposit-taking companies under the LCR

1. The CIs set out in this Annex apply to category 1 institutions (or their specified associated entities in the case of category 1 institutions incorporated in Hong Kong) which are deposit-taking companies (DTCs).

Legal restriction on deposits taken by DTCs

2. Pursuant to section 12(3) of the BO, "*A deposit-taking company shall not, without the written permission of the Monetary Authority, repay any deposit within a period of less than three months (as specified in the First Schedule to the BO) from the date on which the deposit was taken by the company.*" Nonetheless, this legal prohibition from early repayment of a deposit taken by a DTC ~~deposit-taking company (DTC)~~ does not apply in the following situations:

   (i) if the deposit has already been held by the DTC for three months or more from the date on which the deposit was taken by the DTC; and

   (ii) if the deposit has not been held by the DTC for three months or more from the date on which the deposit was taken by the DTC, but the MA has granted a written permission under section 12(3) for early repayment of the deposit.

Treatment of deposits subject to section 12(3) restriction

3. Deposits taken by a DTC with a remaining term to maturity that is beyond the LCR period (even though such deposits have been held by the DTC for less than three months) can be excluded from the calculation of the LCR, provided that no section 12(3) permission has been granted by the MA in respect of those deposits.[63]

Treatment of deposits not subject to section 12(3) restriction (due to holding of deposits for three months or more)

4. If deposits taken by a DTC have been held by the DTC for three months or more, the section 12(3) restriction does not apply to those deposits. The outflow treatment of those deposits should follow the CIs set out in item B1, B3, B5 or B6 of Section (I) of Part 2 of this Return as appropriate. That is,

---

[63] This is a special treatment for "retail term deposits" taken by DTCs (otherwise those deposits will be subject to a 5% outflow rate). In the case of "unsecured wholesale funding" obtained by a DTC subject to the LCR, if the earliest possible contractual maturity date of the funding does not fall within the LCR period, the funding concerned is already not required to be included for LCR ~~the~~ purposes. ~~of calculating the LCR.~~

(i) retail deposits (other than retail term deposits) taken by a DTC that will mature within the LCR period should be treated as "less stable retail deposits" and hence reported under ~~in~~ sub-item B1(b), given that deposits taken by DTCs are not protected by the Deposit Protection Scheme in Hong Kong and therefore do not qualify as "stable retail deposits". Similarly, small business funding obtained by a DTC maturing ~~that will mature~~ within the LCR period should be reported in sub-item B3(b);

(ii) retail term deposits taken by a DTC that will mature beyond the LCR period should be reported in sub-item B1(c). Similarly, small business funding obtained by a DTC that will mature within the LCR period should be reported in sub-item B3(c);

(iii) other deposits taken by a DTC (e.g. from wholesale customers which are not small business customers) maturing ~~that will mature~~ within the LCR period should be reported in item B5 or B6 as the case may require.

Treatment of deposits not subject to section 12(3) (by virtue of MA's written permission under section 12(3))

5. If the withdrawal restriction under section 12(3) does not apply to a deposit taken by a DTC because of the MA's written permission to allow early repayment of the deposit, ~~under section 12(3),~~ the deposit should be subject to an outflow rate of 100% (given the ~~high~~ likelihood that the deposit would ~~will~~ be repaid soon after the MA's permission is granted). Report the deposit in the following item or sub-item under Section (I)(B) of Part 2 of this Return:

(i) item B22 (i.e. other contractual cash outflows) if the deposit is a retail deposit or small business funding~~;~~

(ii) sub-item B6(b) (i.e. unsecured wholesale funding other than funding covered under item B3, B4, B5 or B6(a)) ~~if the deposit is unsecured wholesale funding (other than funding covered under item B3, B4, B5 or sub-item B6(a)).~~

6. The above CIs are summarisz~~z~~ed as follows:

<table>
<tr><th></th><th colspan="2">Term deposits taken from retail or small business customers</th><th colspan="2">Term deposits taken from wholesale customers (other than small business customers)</th></tr>
<tr><td></td><td>Remaining term within LCR period</td><td>Remaining term exceeding LCR period</td><td>Remaining term within LCR period</td><td>Remaining term exceeding LCR period</td></tr>
<tr><td>Restricted by s.12(3)</td><td rowspan="2">Counted as “less stable retail deposits” (sub-item B1(b)) or “less stable small business funding” (sub-item B3(b)), subject to 10% outflow rate</td><td>Not counted</td><td rowspan="2">Counted in item B5 or B6 according to usual requirements</td><td rowspan="2">Not counted</td></tr>
<tr><td>Not restricted by s.12(3) because the 3-month restriction has been fulfilled</td><td>Counted as “retail term deposits” (sub-item B1(c) or “small business term funding” (sub-item B3(c)), subject to 5% outflow rate</td></tr>
<tr><td>Exempted from s.12(3) by MA</td><td colspan="2">Counted as “other contractual cash outflows” (item B22), subject to 100% outflow rate</td><td colspan="2">Counted in sub-item B6(b), subject to 100% outflow rate</td></tr>
</table>

Annex 5
Completion instructions for Table 5 of Section (II) of Part 2 – Calculation of contractual net cash outflows and inflows arising from derivative contracts under LCR

1. Follow the steps below to complete Table 5, which will generate the required figures for reporting of cash outflow item B10 and cash inflow item C9 in Section (I) of Part 2 of this Return. [64]

Item 1. Gross amount of cash-flows (after collateral adjustments, if any)

2. Report in item 1 the **gross amount**, measured at fair value in accordance with the reporting institution's usual valuation methodology, of (a) contractual cash outflows to be paid, and (b) contractual cash inflows to be received, by the institution within the LCR period under derivative contracts entered into by the institution.

For example, the reporting institution (Bank A) has entered into the following derivative contracts with its counterparty (Bank B):

(Unit: HKD'000 equivalent)

		Bank A	Bank B	Applicable exchange rates
Contract (I)	Inflow (IF): Outflow (OF):	USD130 EUR100	EUR100 USD130	@ 7.8 HKD per USD @ 9.75 HKD per EUR
Contract (II)	IF: OF:	JPY 15000 GBP 100	GBP 100 JPY 15000	@ 12 HKD per GBP @ 7 HKD per AUD
Contract (III)	IF: OF:	HKD 630 AUD 100	AUD 100 HKD 630	@ 13.33 JPY per HKD

Bank A should complete item 1 of Table 5 as follows:

(Unit: HKD'000 equivalent)

1. Gross amount of cash flows (before collateral adjustments, if any)	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
(a) Contractual cash outflows	2875		2875	0	0	2175 (EUR100*9.75) + (GBP100* 12)	0	700 (AUD100*7)
(b) Contractual cash inflows	2769		2769	630	1014 (USD130 * 7.8)	1125 (JPY15000 ÷13.33)	0	0

[64] While items B10 and C9 in Section (I) of Part 2 are capturing contractual net cash flows arising from derivative contracts, contractual net cash flows arising from spot currency ~~exchange~~ transactions (if any) should also be included in these two items as the case may be. ~~(Please refer to item 46 in Part 5 of the BCBS document entitled "*Frequently Asked Questions on Basel III Monitoring*" published in February 2013.)~~ Usually, the contractual cash outflow and the contractual cash inflow arising from a spot currency ~~exchange~~ transaction may be offset if the inflow and outflow is settled on the same day (which is usually the case for a spot currency ~~exchange~~ transaction).

Adjustments for HQLA collateral posted or received by the reporting institution

2.1 If the reporting institution has posted any HQLA collateral to a counterparty to secure the institution's payment obligations under a derivative contract, the institution may, for the reporting of item 1(a), offset the fair value of the posted collateral (after applying haircuts in the case of level 2A or level 2B assets) against the fair value of the contractual cash outflow to be paid by the institution under the contract. If the posted collateral is denominated in a currency which is different from that of the contractual cash outflow to be paid by the institution within the LCR period, convert the value of the posted collateral into the currency in which the contractual cash outflow is denominated.

2.2 Similarly, if the reporting institution has received any HQLA collateral from a counterparty to secure the counterparty's payment obligations to the institution under a derivative contract, and the collateral is included by the institution as HQLA for calculating its LCR, the institution must offset the fair value of the received collateral (after applying haircuts in the case of level 2A or level 2B assets) against the fair value of the contractual cash inflow to be received by the institution under the contract. If the received collateral is denominated in a currency which is different from that of the contractual cash inflow to be received by the institution within the LCR period, convert the value of the received collateral into the currency in which the contractual cash inflow is denominated.

2.3 For example –

(i) If Bank A has posted a USD-denominated level 2A asset with a fair value of USD100 (equivalent to HKD780) to a counterparty as collateral to secure Bank A's payment obligations under Contract (I), Bank A is allowed to offset the post-haircut fair value of that asset (i.e. after applying a 15% haircut on the level 2A asset) against the contractual cash outflow to be paid by Bank A under Contract (I). The gross amount of contractual cash outflow arising from Contract (I) after collateral adjustment is equivalent to HKD312 (=EUR100*9.75 – USD100*7.8*85%).

(ii) If Bank A has also received a HKD-denominated level 1 asset with a fair value of HKD1000 from a counterparty as collateral to secure the latter's payment obligations under Contract (II), and the collateral is included by Bank A as level 1 asset in calculating its LCR, Bank A must calculate the contractual cash inflow arising from Contract (II) by offsetting the fair value of the level 1 asset (0% haircut in this case) received by it. The gross amount of contractual cash inflow arising from Contract (II) after collateral adjustment is equivalent to HKD125 (= JPY15000/13.33 – HKD1000).

After adjustments for the value of collateral posted or received by Bank A, item 1 of Table 5 should be reported as follows:

(Unit: HKD'000 equivalent)

1. Gross amount of cash flows (after collateral adjustments, if any)	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
(a) Contractual cash outflows	2212		2212	0	0	1512 (= 312 + 1200)	0	700
(b) Contractual cash inflows	1769		1769	630	1014	125	0	0

2.4 If the collateral posted or received by the reporting institution is specific to a derivative contract, the amount of collateral value to be deducted cannot exceed the amount of contractual cash outflow or contractual cash inflow generated from that contract.

2.5 If the reporting institution has posted a pool of assets (some of which may qualify for inclusion as level 1, level 2A or level 2B assets) as collateral to a counterparty to secure the institution's payment obligations under two or more derivative contracts, and there are no specific terms under the contracts regarding which of the assets within the pool should be assigned to cover which of the contracts, the institution should adopt the following assumptions:

(i) an asset within the pool of collateral is assumed to be used to offset the contractual cash outflow denominated in the same currency as that of the asset first;

(ii) any remaining value of that asset is assumed to be used to offset the contractual cash outflows denominated in other currencies according to this order: (a) HKD; (b) USD; (c) "other major currencies" (i.e. EUR, JPY and GBP); (d) RMB; and (e) other currencies; and

(iii) in determining the order of using different classes of asset in the pool of collateral posted by the institution to offset derivative cash outflows, the institution may apply an order in line with that specified in paragraph 22 of these CIs.

2.6 For the purposes of reporting contractual cash inflows arising from derivative contracts, the assumptions set out in paragraph 2.5 of this Annex should also be applied to the treatment of collateral received by the reporting institution under derivative contracts.

Item 2. Net amount of cash flows

3. Report in item 2 the amount, measured at fair value, of (a) contractual net cash outflows to be paid, and (b) contractual net cash inflows to be received, by the reporting institution within the LCR period arising from derivative contracts entered into by the institution, if any of the adjustments set out below is applicable to the institution.

Offsetting of contractual cash flows under the same exchange rate contract

3.1 The contractual cash inflow and outflow arising from the same exchange rate contract can be offset if the two amounts are fully exchanged on a simultaneous basis (or within the same day), irrespective of whether the contract is subject to a valid bilateral netting agreement.

In the above example, assume that all of the derivative contracts between Bank A and Bank B are exchange rate contracts and, for each contract, the contractual cash outflow and inflow (after adjustment of collateral value if any) can be offset. Then the respective cash-flow positions of Bank A and Bank B under each of the contracts are adjusted as follows:

(Unit: HKD'000 equivalent)

	Bank A	Bank B
Contract (I)	Net inflow = (USD130*7.8) – (EUR100*9.75 – USD100*7.8*85%) = 702 (reported in currency column according to the currency denomination of the largest inflow leg, i.e. USD)	Net outflow = 702
Contract (II)	Net outflow = (JPY15000/13.33 – HKD1000) – (GBP100*12) = 1075 (reported in the currency column according to the currency denomination of the largest outflow leg, i.e. GBP)	Net inflow = 1075
Contract (III)	Net outflow = HKD630 – AUD100*7 = 70 (report in the currency column following the currency denomination of the largest outflow leg i.e. AUD)	Net inflow = 70

Bank A should report in item 2 as follows:

(Unit: HKD'000 equivalent)

2. Net amount of cash flows	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
(a) Contractual net cash outflows after adjustments (re Code of Practice, clause 12(3) & (4))	1145		1145	0	0	1075	0	70
(b) Contractual net cash inflows after adjustments (re Code of Practice, clause 30(3) & (4))	702		702	0	702	0	0	0

Offsetting of contractual cash flows across derivative contracts subject to a valid bilateral netting agreement

3.2 Contractual cash outflows and inflows arising from derivative contracts entered into by the reporting institution with the same counterparty within the LCR period can be calculated on a net basis if the contracts are subject to a valid bilateral netting agreement entered into by the institution with that counterparty.

In the above example, if the three derivative contracts entered into by Bank A with Bank B are subject to a valid bilateral netting agreement, their respective net cash-flow

positions under each of the contracts (as calculated under paragraph 3.1 of this Annex) can be offset further, as demonstrated below:

(Unit: HKD'000 equivalent)

	Bank A	Bank B
Contracts (I), (II) & (III)	Net outflow = 1075 + 70 – 702 = 443 (reported in the currency column according to the currency denomination of the largest outflow leg, i.e. GBP)	Net inflow = 443

Bank A should therefore report under item 2:

(Unit: HKD'000 equivalent)

2. Net amount of cash flows	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
(a) Contractual net cash outflows after adjustments (re Code of Practice, clause 12(3) & (4))	443	100%		0	0	443	0	0
(b) Contractual net cash inflows after adjustments (re Code of Practice, clause 30(3) & (4))	0	100%		0	0	0	0	0

Annex 6

Completion instructions for Table 6 of Section (II) – Calculation of expected cash outflow arising from potential loss in market value of posted collateral securing derivative contracts or other transactions

1. Report in item 1 of Table 6 the contracted amount of collateral (other than level 1 assets) posted by the reporting institution to its counterparty as required under a derivative contract or any other transaction (***posted collateral***). The contracted amount of posted collateral should be determined in accordance with the terms and valuation methodology that may be specified in the relevant contractual agreement. For example, if the relevant contractual agreement requires the posted collateral to be measured at market value subject to any haircut, the institution should report the post-haircut market value of the posted collateral in item 1 of Table 6.

2. If the reporting institution has received collateral which is not level 1 asset (***received collateral***) from the same counterparty (i.e. the one who has received the posted collateral), report the contracted amount of the received collateral in item 2 of Table 6, provided that the institution has an unrestricted right to re-hypothecate the received collateral but has not done so, nor has the institution counted the received collateral as HQLA in calculating its LCR.

For example, Bank A (the reporting institution) has the following collateral positions arising from derivative contracts (or other transactions) entered into Bank B (the counterparty):

(Unit: HKD'000 equivalent)

Contract	Collateral (other than level 1 assets) (contracted amount in HKD equiv.)	HKD	USD	Other major $	RMB	Other $
(I)	Collateral posted	350	0	0	0	0
(II)	Collateral posted	0	1000	0	0	0
(III)	Collateral posted	0	0	0	250	0
(IV)	Collateral received	0	0	200	0	0
(V)	Collateral received	0	1100	0	0	0

Bank A should complete Table 6 as follows:

(Unit: HKD'000 equivalent)

	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major $	RMB	Other $
1 Collateral (other than level 1 assets) posted by the reporting institution to counterparties under derivative contracts or other transactions (***posted collateral***)	1600 (= 350 + 1000 + 250)							
2 Collateral (other than level 1 assets) received by the reporting institution from the same counterparties under derivative contracts or other transactions that can be deducted from item 1 (***received collateral***)	1300 (= 1100 + 200)							
3 Net amount of posted collateral (= Max (item 1 – item 2), 0)	300	20%	60	10	0	0	50	0

3. The currency breakdown under item 3 of Table 6 is derived on the basis of the following assumptions[65] –

(i) the received collateral denominated in a specific currency (e.g. USD) is used to offset with the posted collateral denominated in the same currency first.

In the above example,

(a) Bank A receives collateral denominated in USD (1100 HKD equivalent) which can cover the USD collateral posted by it fully (1000 HKD equivalent). An amount of "0" is therefore reported in the USD column; and

(b) likewise, Bank A receives collateral denominated in "other major currencies" (200 HKD equivalent) but no collateral in these currencies has been posted by it. Therefore an amount of "0" is also reported in the column of "other major currencies";

(ii) the remaining value of received collateral (if any), after covering the posted collateral in the same currency, can be used to offset posted collateral denominated in other currencies. In such cases, the reporting institution may assume that the remaining value of the received collateral is used to offset posted collateral denominated in other currencies by order of: (a) HKD; (b) USD; (c) "other major currencies" (i.e. JPY, EUR, and GBP); (d) RMB; and (e) other currencies.

In the above example,

(a) the remaining value of received collateral denominated in USD and other major currencies (after offsetting against posted collateral in the same currency) can be used to cover posted collateral in HKD first. Therefore an amount of "10" is reported in the column of HKD (10 = (350 – (1100 – 1000) – 200)*20%); and

(b) an amount of "50" is reported in the column of RMB (50 = 250*20%).

4. If the received collateral is kept in a segregated account opened by the counterparty with the reporting institution, the collateral in the account can only be used to offset outflows associated with payments that are eligible to be offset from the same account of the counterparty.

[65] If the reporting institution intends to adopt internal assumptions and methodologies to report the currency breakdown of this cash outflow item in order to better reflect its liquidity risk profile and liquidity risk management practice, it should discuss with the MA in advance.

For example, if the USD-denominated collateral received by Bank A under Contract (V) (1100 HKD equivalent) is kept in a segregated account which is designated to cover payments under a specific contract exclusively (e.g. Contract (III), under which Bank A is obligated to post RMB-denominated collateral (250 HKD equivalent), the remaining value of USD-denominated collateral (1100 – 250) cannot be used to offset other collateral posted by Bank A. Therefore Bank A should report Table 6 as follows:

(Unit: HKD'000 equivalent)

		Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
					HKD	USD	Other major _$	RMB	Other $
1	Collateral (excluding level 1 assets) posted by the reporting institution to counterparties under derivative contracts or other transactions (***posted collateral***)	1600 (= 350 + 1000 + 250)							
2	Collateral (excluding level 1 assets) received by the reporting institution from the same counterparties under derivative contracts or other transactions that can be deducted from item 1 (***received collateral***)	450 (= 250 + 200)							
3	Net amount of collateral (= Max (item 1 – item 2), 0)	1150	20%	230	30	200	0	0	0

Adopting the assumptions set out in paragraph 3 of this Annex, the currency breakdown of item 3 in Table 6 is calculated as follows:

- HKD column: 30 = (350 – 200)*20%
- USD column: 200 = (1000 – 0)*20%
- RMB column: 0

5. In any circumstances, collateral received by the reporting institution from its counterparty should not be used to offset collateral posted by the institution to another counterparty.

Annex 7
Treatments of specific types of transactions under LMR

A category 2 institution should adopt the following treatments for the LMR purposes:

(I) Foreign exchange transactions due for settlement within the LMR period

1.1 Spot currency trading

If a category 2 institution has conducted a currency trading transaction in the spot market which will be settled within the LMR period, the institution should calculate the amounts receivable and payable by it on a mark-to-market basis.

In line with the general criteria for reporting of cash flows on a net basis under the LCR, the amounts receivable and payable by the institution within the LMR period arising from foreign exchange transactions may be reported on a net basis only if –

- the amounts receivable and payable by the institution arise from the same transaction and both amounts will be settled simultaneously (i.e. on the same day) within the LMR period;

- the amounts receivable and payable by the institution arise from the transactions and contracts with a counterparty who has established a valid bilateral netting agreement with the institution.

The amounts receivable and payable by the institution (after allowable netting) should be reported in the relevant items in Part 3 of this Return according to the type of counterparty specified in Table (1):

Table (1): Reporting of amounts receivable and payable within the LMR period arising from foreign exchange transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from foreign exchange transaction is not regarded as "eligible loan repayment")	Item (B3)

1.2 For example, a category 2 institution has entered into a foreign exchange transaction to purchase USD 1 million and sell HKD 7.76 million (i.e. the contractual exchange rate is 7.76) while the market exchange rate has changed to 7.8 on the LMR calculation date. When the transaction is settled within the LMR period, the institution will receive USD 1 million (equivalent to HKD7.8 million on a mark-to-market basis) and pay HKD7.76 million. If the amounts receivable and payable by the institution are settled on the same day, the net amount receivable (equivalent to HKD 40,000 in this example) should be reported in the relevant item according to Table (1).

(For the purpose of reporting the specific currency columns in Section (I) of Part 3 of this Return, report the net amount receivable in the currency leg in which the institution will receive money in that transaction. In this example, the net amount equivalent to HKD40,000 should be reported in the USD column.)

1.3 If the applicable market exchange rate is 7.75, the institution should include the net amount payable (equivalent to HKD10,000) as one-month liability in the relevant item according to the type of counterparty, as specified in Table (1) above. (This net amount payable should be reported in the HKD column in this example.)

(II) Derivative contracts

2.1 The treatment of contractual amount receivable and payable by a category 2 institution within the LMR period arising from derivative contracts (including exchange rate contracts as defined in the BCR and other types of derivative contracts) is essentially the same as the treatment set out in Section (I) of this Annex. When the institution applies the applicable treatment to derivative contracts, the following points are note-worthy:

(a) The institution is only required to include contractual payments and receipts arising from the relevant contracts within the LMR period. Contingent claims or liabilities arising from derivative contracts are not considered for the LMR purposes.[66]

(b) If a contract has its final maturity date (taking into account any possibility of early settlement) falling within the LMR period (i.e. all cash flows arising from the remaining life of that contract will occur within the LMR period), the fair value of that contract can be taken as the contractual amount receivable or payable by the institution arising from that contract.

[66] A contingent claim and liability arising from an exchange rate contract or a derivative contract means a claim or liability of which the materialisation ~~materialization~~ is contingent upon the occurrence of specific event(s) defined in a contract. Whilst there are specific requirements under the LCR for category 1 institutions to include certain types of contingent cash flows arising from derivative contracts (or other transactions), such as expected cash outflows arising from derivative contracts (or other transactions) that have material adverse

(c) If a contract has its final maturity date falling after the LMR period but it will generate cash flows within the LMR period (e.g. in case of periodic cash flows under a swap or any similar contract), only the cash flows within the LMR period are included for LMR purposes.

(d) If a contract will not generate any cash flows within the LMR period, that contract does not need to be considered for LMR purposes.

The amounts receivable and payable by the institution (after allowable netting) arising from derivative contracts within the LMR period should be reported in the relevant items in Part 3 of this Return according to the type of counterparty specified in Table (2):

Table (2): Reporting of amounts receivable and payable within the LMR period arising from derivative contracts

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from derivative contracts is not regarded as "eligible loan repayment")	Item (B3)

(III) Securities transactions awaiting ~~due for~~ settlement within the LMR period

3.1 Purchase of securities

(a) *The asset purchased is a liquefiable asset* –

(i) In case of a spot purchase, report the asset as a liquefiable asset, considering that an asset, once purchased, can usually be monetized readily by sale in spot market immediately.

The corresponding amount payable by the institution within the LMR period is the institution's one-month liability, which should be reported according to the type of counterparty by reference to Table (3).

---

event clauses, contingent claims and liabilities arising from derivative contracts are not considered under the LMR.

Table (3): Reporting of amounts receivable and payable within the LMR period arising from securities purchase or sale

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from sale of securities is not regarded as "eligible loan repayment")	Item (B3)

(ii) in case of a forward purchase, the asset is usually not readily available to be monetized. In these circumstances, ~~In this occasion,~~ the asset to be received cannot be treated as a liquefiable asset. If the asset will be delivered to the institution within the LMR period, the corresponding amount payable by the institution within the LMR period can be disregarded for LMR purposes. Otherwise, the corresponding amount payable within the LMR period must be reported as a one-month liability according to the relevant type of counterparty by reference to Table (3).

(b) *The asset purchased is not a liquefiable asset* – No liquefiable asset can be reported, but report the corresponding amount payable within the LMR period as a one-month liability to the relevant type of counterparty by reference to Table (3).

3.2 Sale of securities

(a) *The asset sold is a liquefiable asset* –

(i) In case of a spot sale, the asset sold cannot be reported as a liquefiable asset because it has already been removed from the institution's balance sheet on the trade day.

(ii) In case of a forward sale, the asset cannot be included in the stock of liquefiable asset if the institution is contractually obliged to deliver that asset to its counterparty within the LMR period.

(iii) If a spot or forward sale will generate any amount receivable by the institution within the LMR period, report that amount according to the type of counterparty by reference to Table (3).

(b) *The asset sold is not a liquefiable asset* – Irrespective of whether the asset is sold in a spot market or under a forward contract, neither the asset nor the corresponding amount receivable within the LMR period can be included in the calculation of the LMR. A stricter approach is adopted for the sale of non-liquefiable assets in general (i.e. not restricted to securities). Non-liquefiable assets can be converted to liquefiable assets by sale only upon the receipt of cash.

(IV) Forward forward deposits

4.1 Under a forward forward deposit transaction (or any similar type of forward borrowing or lending transaction) where a category 2 institution is the fund provider, it has a contractual obligation to place a specified amount of funds to its counterparty on a specified day (Day P) until the placement falls due and repaid by the counterparty to the institution (on Day T). If the institution is a fund taker in that transaction, it would have cash flow positions opposite to the above.

4.2 As a general principle, all amounts receivable and payable by the institution within the LMR period arising from a forward forward deposit transaction must be included in the calculation of the LMR. The specific treatment of this type of transaction is set out below:

(a) If both Day P and Day T fall within the LMR period, report the cash flows on Day P and Day T on a gross basis[67]. Netting is allowed only if the cash flows arising from transactions with a counterparty are subject to a valid master netting agreement.

(b) If Day P falls within the LMR period but Day T does not, include the cash flow on Day P only for calculating the LMR.

(c) If both Day P and Day T fall after of the LMR period, the transaction is not considered under the LMR.

4.3 The amounts receivable and payable by the institution within the LMR period should be reported in the relevant items according to Table (4):

[67] As the cash flows arising from a forward forward deposit transaction are generated in different dates (i.e. Day P and Day T respectively), netting of such cash flows at the transaction level is not allowed.

Table (4): Reporting of amounts receivable and payable within the LMR period arising from forward forward deposit transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Item (C4)[68]	Item (B3)

(V) Repo-style transactions

5.1 Where the risks and rewards **ARE NOT** substantially transferred to the buyer

5.1.1 Repo transaction due to unwind within the LMR period

(a) *Repo subject is a liquefiable asset*

Both the repo subject and the amount payable arising from the repo transaction should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively.[69]

(b) *Repo subject is not a liquefiable asset*

Disregard the repo subject; report the amount payable by the institution within the LMR period as a one-month liability according to the type of counterparty. Please refer to Table (5).

Table (5): Reporting of amounts receivable and payable within LMR period arising from repo and reverse repo transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Item (A4)(a) or (C2)	Item (A4)(b) or (B2)
Other customers	Item (C4)	Item (B3)

[68] Deposit is regarded as a loan of money placed by a person to another person. Therefore amounts receivable arising from a forward forward deposit transaction can be treated as "eligible loan repayment" if the applicable criteria are met fully.

[69] The repo subject remains on the balance sheet of the reporting institution but cannot be reported as a liquefiable asset because it is not free from encumbrances. The corresponding account payable need not be reported as a qualifying liability because the future cash outflow will bring in a liquefiable asset and the institution's liquidity position will not change in essence (apart from the possible difference in LCF). In other words, once the account payable is settled, the repo subject immediately ceases to be "encumbered" and can be reported as a liquefiable asset.

5.1.2 Reverse repo transaction due to unwind within the LMR period

As the reverse repo subject cannot be re-hypothecated by the institution, the asset cannot be claimed by the institution as a liquefiable asset.

Report the amount receivable by the institution within the LMR period according to the type of counterparty. Please refer to Table (5).

5.1.3 Repo transaction due to unwind beyond the LMR period

(a) *Repo subject is a liquefiable asset*

Same treatment for the repo subject as in scenario 5.1.1(a).

No qualifying liability arises from the transaction since the corresponding account payable does not fall due within the LMR period.

(b) *Repo subject is not a liquefiable asset*

Same treatment of repo subject as in scenario 5.1.1(b).

No qualifying liability arises from the transaction since the corresponding account payable does not fall due within the LMR period.

5.1.4 Reverse repo transaction due to unwind beyond the LMR period

Same treatment of the reverse repo subject as in scenario 5.1.2.

The corresponding account receivable is not included in the calculation of the LMR since it is a claim due beyond the LMR period.

5.2 Where the risks and rewards **ARE** substantially transferred to the buyer

The reporting treatment set out below is to be applied to repo / reverse repo transactions where securities are sold / purchased subject to a repurchase / resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the buyer and the transaction is separately accounted for as an outright sale / purchase and a commitment to repurchase / sell back. Where the price for the commitment to repurchase / sell back has not been determined, the fair value (e.g. current market value) of the securities concerned should be used.

5.2.1 Repo transaction due to unwind within the LMR period

(a) *Repo subject is a liquefiable asset*

The treatment is the same as under scenario 5.1.1(a). Both the repo subject and the commitment to repurchasing the repo subject should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively.

(b) *Repo subject is not a liquefiable asset*

Disregard the repo subject; report the institution's commitment to repurchasing the repo subject within the LMR period as a one-month liability according to the type of counterparty. Please refer to Table (5).

5.2.2 Reverse repo transaction due to unwind within the LMR period

(a) *Reverse repo subject is a liquefiable asset*

As the reverse repo subject is purchased under an outright transaction, it may be included as a liquefiable asset (if the other applicable criteria are met fully).

The future cash inflow brought about by the corresponding commitment to sell back should not be reported as a liquefiable asset because it will be offset by the simultaneous future outflow of the liquefiable asset (the reverse repo subject).

(b) *Reverse repo subject is not a liquefiable asset*

As the reverse repo subject acquired ~~in return~~ is not a liquefiable asset, there is no change to the institution's liquefiable assets.

Reporting of the future cash inflow brought about by the corresponding commitment to sell back depends on the type of counterparty to the transaction. Please refer to Table (5).

5.2.3 Repo transaction due to unwind beyond the LMR period

(a) *Repo subject is a liquefiable asset*

Same treatment for the repo subject as in scenario 5.2.1(a).

No qualifying liability arises from the transaction since the corresponding commitment to repurchase does not fall due within the LMR period.

(b) *Repo subject is not a liquefiable asset*

Same treatment for the repo subject as in scenario 5.2.1(b).

No qualifying liability arises from the transaction since the corresponding commitment to repurchase does not fall due within the LMR period.

5.2.4 Reverse repo transaction due to unwind beyond the LMR period

(a) *Reverse repo subject is a liquefiable asset*

Same treatment for the reverse repo subject as in scenario 5.2.2(a).

No qualifying liability arises from the transaction.

(b) *Reverse repo subject is not a liquefiable asset*

Same treatment for the reverse repo subject as in scenario 5.2.2(b).

No qualifying liability arises from the transaction.

Annex 8
Examples for reporting of due to/from the MA for the account of the Exchange Fund, central banks and banks under LMR

(I) Reporting of due to / from central banks

Assume Bank A and Bank B have the following positions:

	Bank A		Bank B	
	Usable on demand or within 24 hours	Mature in LMR period*	Usable on demand or within 24 hours	Mature in LMR period*
Due from central banks	80	160	20	40
Due to central banks	50	100	60	120

* *Not usable on demand or within 24 hours*

The two banks should report their respective positions as follows:

Items	Bank A		Bank B	
	Principal amount	Weighted amount	Principal amount	Weighted amount
(A3)	80	80	20	20
(B1)	150 (= 50 + 100)	150	180 = (60 + 120)	180
(C1)	160	160	40	40

(II) Reporting of due to / from banks

Assume Bank A and Bank B have the following positions:

	Bank A	Bank B
Due from banks maturing in the LMR period	100	20
Due to banks maturing in the LMR period	20	100
Qualifying liabilities (before deductions)	150	150

The two banks should report their respective positions as follows:

Items	Bank A (Net due from banks in 1 month ≧ 0)		Bank B (Net due to banks in 1 month > 0)	
	Principal amount	Weighted amount	Principal amount	Weighted amount
(A4)(a)	100		*No need to report item (A4)*	
(A4)(b)	20			
(A4)(c)	80 (= 100 – 20)	60 = Min {(100-20)*80%, (150*40%)}		
(B2)	*No need to report items (B2) and (C2)*		100	100 (100% LCF)
(C2)			20	20 (100% LCF)
(C3)		4 (= 80*80% – 60)	n.a.	

Z

SECRET

Co. No. MM YY CAT.

(For Official Use Only)

under the Banking Ordinance

RETURN ON SELECTED DATA FOR LIQUIDITY STRESS-TESTING

~~POSITION OF THE HONG KONG OFFICES AND OVERSEAS BRANCHES~~
UNCONSOLIDATED POSITION OF A BANK INCORPORATED IN HONG KONG

As at .....

~~(last day of the month)~~

Name of Authorized Institution	Date of Submission

The Banking Ordinance

Information requested in this return is required under section 63(2) of the Banking Ordinance. The return should be submitted to the Monetary Authority not later than 6 weeks after ~~the end of each quarter ending on 31 March,~~ 30 June~~, 30 September~~ and 31 December, unless otherwise advised by the Monetary Authority.

Note *:* This return is to be prepared in accordance with the completion instructions issued by the Monetary Authority.

We certify that this return is, to the best of our knowledge and belief, correct.

Chief Accountant *Chief Executive*

Name *Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

Name *Telephone Number*

Part I - Cash-flow information

(HK$'000)

	Reference: MA(BS)1/ MA(BS)1B	Closing balance	Maturity							
			1st day	2nd day	3rd day	4th day	5th day	6th day	7th day	Over 7 days
LIABILITY ITEMS										
1. Deposits from customers										
1.1 Deposits from connected parties										
1.2 Pledged deposits										
1.3 Other deposits										
1.4 Total	6									
2. Due to banks										
2.1 Bank vostro balances										
2.2 Due to banks - connected parties										
2.3 Due to banks - pledged										
2.4 Due to banks - other counterparties										
2.5 Total	8									
3. Negotiable debt instruments issued and outstanding	9									
ASSET ITEMS										
4. Cash	12									
5. Due from banks										
5.1 Bank nostro balances										
5.2 Due from banks - connected parties										
5.3 Due from banks - pledged										
5.4 Due from banks - other counterparties										
5.5 Total	17									
6. Debt securities held										
6.1 Exchange Fund Bills and Notes (EFBN)										
6.2 Securities eligible for rediscount at the Discount Window (other than EFBN)										
6.3 Other HKD investment grade securities										
6.4 US Treasuries & other AAA rated USD securities										
6.5 Other USD investment grade securities										
6.6 Other securities										
7. Residential mortgage loans										
7.1 HOS / PSPS mortgage loans										
7.2 HKMC compliant mortgage loans										
7.3 Other mortgage loans										

Part II - Supplementary Information

1. Due to and due from the same counterparty bank

(HK$'000)

Name of counterparty bank	a. Amount due to the counterparty bank	b. Amount due from the counterparty bank
Total		

2. Residential mortgage loans

(HK$'000)

	HOS/PSPS mortgage loans	HKMC compliant mortgage loans	Other mortgage loans
(a) Delinquent loans			
(b) Loans in negative equity			

Completion Instructions

Return on Selected Data for Liquidity Stress-testing
Form ~~[~~MA(BS)18~~]~~

Introduction

1. This return collects information on the cash flow position of selected asset and liability items of reporting authorized institutions (AIs). The information will mainly be used by the HKMA for conducting its own stress tests on individual AIs' short-term liquidity positions.

2. The completion instructions comprise 2 sections. Section A gives instructions on the general reporting requirements. Section B explains the reporting requirements for each individual item in the return.

Section A: General Instructions

3. All licensed banks incorporated in Hong Kong are required to complete this return showing the position of their Hong Kong offices and overseas branches as at the ~~last calendar day of each quarter~~end of June and December each year. The return should be submitted not later than 6 weeks after the end of ~~each quarter~~June or December. If the submission~~ deadline~~ timeline falls on a public holiday, it will be deferred to the next working day.

4. Unless otherwise indicated, book value should be used for reporting purposes. Amounts should be shown to the nearest thousands, in HK$ or HK$ equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the reporting date should be used for conversion purposes.

5. Apart from reporting all items in Part I of the return under the "Closing balance" column, the reporting AI is required to provide the maturity breakdown of some of the items according to the remaining period of maturity at the reporting date.

6. The following should also be noted in respect of the reporting of maturity under this return:

   (a) "1st day - 7th day" means the next 7~~ business~~ working days after the reporting date;

   (b) any item payable on demand should be reported under the "1st day" column;

(c) any item callable at notice should be reported according to the length of notification period required, i.e. an item callable at one day's notice should be reported in the "2nd day" column, unless notice has been received or given by the AI on the reporting date; and

(d) assets which are overdue or non-performing (defined as assets on which interest is being placed in suspense or interest accrual has ceased) should be included in the "Over 7 days" column.

7. For the purpose of this return, connected parties include :

(a) any minority or majority shareholder controller (as defined in section 2 of the Banking Ordinance), subsidiary and associated company of the reporting AI; and

(b) any subsidiary and associated company belonging to the same business group of the parties mentioned in (a) above.

8. Some items in this return have the same definition as in the "Return of Assets and Liabilities - MA(BS)1" or where applicable the "Combined Return of Assets and Liabilities - MA(BS)1B". For those AIs which are required to report MA(BS)1B, reconciliation of such items in these returns will be made with MA(BS)1B. For the remaining AIs, reconciliation will be made with MA(BS)1.

Section B: Specific Instructions

Part I **Cash-flow information**

Item Ref **Item**

LIABILITY ITEMS

1. Deposits from customers

Same definition as item 6 of MA(BS)1 and MA(BS)1B.

1.1 Deposits from connected parties

Report total deposits taken from the reporting AI's non-bank connected parties (defined in paragraph 7 of Section A above) in the "Closing balance" column.

1.2 Pledged deposits

Report total deposits that are pledged to the reporting AI (e.g. for securing credit facilities granted to customers) in the "Closing balance" column. Exclude from reporting under this item any pledged deposits from connected parties reported under item 1.1 above.

1.3 Other deposits

Report deposits from customers other than those reported under items 1.1 and 1.2 in the "Closing balance" column.

1.4 Total

Report the total amount of items 1.1 to 1.3 in the "Closing balance" column.

2. Due to banks

Same definition as item 8 of MA(BS)1 and MA(BS)1B.

2.1 Bank vostro balances

Report vostro balances with other AIs and banks in the "Closing balance" column.

2.2 Due to banks - connected parties

Report borrowings from other AIs and banks that are connected to the reporting AI (refer definition under paragraph 7 of Section A above) in the "Closing balance" column.

2.3 Due to banks - pledged

Report borrowings from other AIs and banks that are under pledge in the "Closing balance" column. Exclude from reporting under this item any pledged interbank borrowings from connected parties reported under item 2.2 above.

2.4 Due to banks – other counterparties

Report borrowings from other AIs and banks other than those reported under items 2.1 to 2.3 in the "Closing balance" column, and slot this amount into different time bands according to their remaining maturity.

2.5 Total

Report the total amount of items 2.1 to 2.4 in the "Closing balance" column.

3. Negotiable debt instruments issued and outstanding

Same definition as item 9 of MA(BS)1 and MA(BS)1B. Report all negotiable debt instruments issued and outstanding in the "Closing balance" column, and slot this amount into different time bands according to their remaining maturity. All instruments which can be redeemed before maturity at the holder's option should be reported in the appropriate time bands according to the earliest date of redemption. Perpetual instruments should be reported under the "Over 7 days" column.

ASSET ITEMS

4. Cash

Same definition as item 12 of MA(BS)1 and MA(BS)1B. Report all cash balances under the "Closing balance" column. In providing the maturity breakdown of this amount, holdings of all notes and coins should be reported in the "1st day" column. Where the cash is still in transit, report it in other time bands according to the expected date of receipt.

5. Due from banks

Same definition as item 17 of MA(BS)1 and MA(BS)1B.

5.1 Bank nostro balances
Report nostro balances with other AIs and banks in the "Closing balance" column.

5.2 Due from banks - connected parties
Report placements and advances to other AIs and banks that are connected to the reporting AI (refer definition under paragraph 7 of Section A above) in the "Closing balance" column.

5.3 Due from banks - pledged
Report placements and advances to other AIs and banks that are under pledge in the "Closing balance" column. Exclude from reporting under this item any pledged interbank placements and advances from connected parties reported under item 5.2 above.

5.4 Due from banks – other counterparties
Report placements and advances other than those reported under items 5.1 to 5.3 in the "Closing balance" column, and slot this amount into different time bands according to their remaining maturity.

5.5 Total
Report the total amount of items 5.1 to 5.4 in the "Closing balance" column.

6. Debt securities held

This item mainly includes negotiable debt instruments reported under items 18 & 19 of MA(BS)1 (or item 18 of MA(BS)1B where applicable) but with the exclusion of acceptances and bills of exchange.

Securities held by the reporting AI which are not free from encumbrances, e.g. which are under pledge, repo or reverse repo, should be excluded from reporting under items 6.1 to 6.6.

Securities held should be slotted into appropriate time bands according to their remaining maturity. Where the reporting AI has been notified that a particular security would be redeemed on any day other than the original maturity day, report the security according to that other day.

Report securities held using current market values. For securities without a secondary market, book value should be used. Any short positions in securities should be reported as negative and slotted into a time band based on the contractual maturity of that security. If both long and short positions exist within the same time band, report the net position.

6.1 Exchange Fund Bills and Notes (EFBN)
Report all holdings in EFBN in the "Closing balance" column.

6.2 Securities eligible for rediscount at the Discount Window (other than EFBN)
Report holdings in such securities (~~refer the list of eligible securities at Annex 1~~if any) in the "Closing balance" column.

6.3 to 6.5 HKD and USD investment grade securities
Report holdings in HKD and USD investment grade securities in the "Closing balance" column of the respective items, and slot the respective amounts into different time bands according to their remaining maturity. A list of credit rating agencies currently recognised by the HKMA and the corresponding minimum acceptable rating for investment grade securities is attached at Annex 1~~2~~.

6.6 Other securities
Report holdings in securities other than those reported under items 6.1 to 6.5 in the "Closing balance" column, and slot this amount into different time bands according to their remaining maturity.

7. Residential mortgage loans

This item refers to loans to private individuals for the purchase of residential properties situated in Hong Kong. These residential mortgage loans should not be subject to any right of set-off in favour of the relevant mortgagor (i.e. there should be an express prohibition in the mortgage documentation of any set-off by the mortgagor against his/her payments under the mortgage loan).

The total amount of residential mortgage loans reported under items 7.1 to 7.3 should not be greater than the total amount reported under items H5a and H5b

of Part I of the "Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A".

7.1 HOS/PSPS mortgage loans

Report total loans for the purchase of flats under the Home Ownership Scheme (HOS) and Private Sector Participation Scheme (PSPS) in the "Closing balance" column. Such loans should be covered by a valid guarantee issued by the Housing Authority and also secured by mortgages that comply with the criteria at Annex 2~~3~~.

7.2 HKMC compliant mortgage loans

Report total loans that comply with the purchasing criteria set by The Hong Kong Mortgage Corporation Limited (HKMC) in its Mortgage Sale & Purchasing Manual in the "Closing balance" column. If the reporting AI has doubt about the compliance of its mortgage loans with the HKMC's purchasing criteria, these mortgage loans should be reported under item 7.3 "Other mortgage loans".

7.3 Other mortgage loans

Report loans secured by mortgages that comply with the criteria at Annex ~~3~~ 2 (other than those reported under items 7.1 and 7.2) in the "Closing balance" column.

Part II Supplementary Information

1. Due to and due from the same counterparty bank

Provide details if the reporting AI has borrowings from and placements with the same counterparty bank (or AI) that is not a connected party. Such borrowings and placements should have already been included in items 2.4 and 5.4 of Part I respectively.

2. Residential mortgage loans

(a) Delinquent loans

Report the total amount of delinquent residential mortgage loans which are included in items 7.1 to 7.3 separately.

For the purpose of this item, a loan is delinquent if the mortgagor or borrower has been in default in making payment for more than 30 days from the due date for any payment under the respective loan during the preceding 6 months.

(b) Loans in negative equity

Report the total amount of residential mortgage loans in negative equity which are included in items 7.1 to 7.3 separately. Exclude any loans in negative equity already included in item (a) above.

Residential mortgage loans in negative equity are defined as those mortgage loans with an outstanding loan amount with the reporting AI that exceeds the current market value (CMV) of the mortgaged property. This definition does not take into account other loans which a borrower may have obtained from co-financiers such as property developers, Hong Kong SAR Government and money lenders to finance the purchase of the mortgaged property.

In determining the amount of residential mortgage loans in negative equity, the reporting AI may use a "best efforts" basis to derive the CMV of the mortgaged property, e.g. by application of available price indices. The frequency of revaluation should preferably be at least quarterly. This may need to be increased further (e.g. monthly) if the condition of the property market merits this.

Hong Kong Monetary Authority
~~June 2005~~January 2017

~~**Annex 1**~~

~~List of securities eligible for rediscount at the Discount Window~~

~~**No.**~~	~~**Issuer/ CMU No*.**~~	~~**Issue Size**~~	~~**Deposit Date**~~	~~**Maturity Date**~~
~~1~~	~~International Bank for Reconstruction and Development HKNGFN97001~~	~~1bn~~	~~07.05.1997~~	~~07.05.2007~~

~~* stands for security number in Central Moneymarkets Unit~~

Annex 1~~2~~

List of recognised credit rating agencies and minimum acceptable rating for investment grade securities

Credit rating agency	Minimum acceptable rating
Moody's Investors Service, Inc.	Baa3
Standard & Poor's Corporation	BBB-
Fitch, Inc.	BBB-
Rating and Investment Information, Inc.	BBB+

Mortgage Criteria

The HOS/PSPS mortgages (7.1) and other mortgages (7.3) shall:-

1. be by way of first fixed legal charge over a residential property situated within Hong Kong;

2. be over property which is to the best of the knowledge, information and belief of the borrower owner-occupied or occupied by a tenant of the owner;

3. have had a loan to value ratio of not more than 9095%, in the case of mortgage loans secured by HOS/PSPS mortgages and 70%, in the case of mortgages loans secured by other mortgages at the date upon which the relevant mortgage loan was approved and at that date the relevant mortgage loan not to have exceeded HK$128 million; and

4. secure mortgage loans that are "current" and not "delinquent", in the sense that none of the mortgagors shall have been in default in making payment for more than 30 days from the due date for any payment under their respective mortgage loans during the preceding 6 months; and

3.5. secure mortgage loans that are borrowed by (a) individual person(s); or (b) a company incorporated in Hong Kong which is maintained for the sole purpose of holding the property of which the company is the borrower under the related mortgage (i.e. the company shall not engage in any business activities), and each of the shareholders and directors of the company has provided a guarantee in respect of all the indebtedness owing under the related mortgage. and not by any other legal entity.

KM

SECRET

CAT. Co. No. MM YY

(For Official Use Only)

under the Banking Ordinance

RETURN ON LIQUIDITY MONITORING TOOLS

*** HONG KONG OFFICE / UNCONSOLIDATED / CONSOLIDATED POSITION**

As at .....

~~(last day of the month)~~

Parts reported in this submission	(please tick)
Part 1 to Part 3	☐
Part 4 and Part 5 (where applicable)	☐

Name of Authorized Institution	Date of Submission
Is the institution designated by the Monetary Authority as a category 1 institution under rule 3 of the Banking (Liquidity) Rules (BLR)? [Yes / No *]	

* Delete where inapplicable.

The Banking Ordinance

Information requested in this Return is required under section 63(2) of the Banking Ordinance. Part 1 to Part 3 of this ~~The~~ Return should be submitted to the Monetary Authority not later than one month after the last day of each month. Part 4 and Part 5 (where applicable) should be submitted to the Monetary Authority within 6 weeks after each quarter-end, unless otherwise advised by the Monetary Authority.

Note *:* This Return is to be prepared in accordance with the Completion Instructions issued by the Monetary Authority.

We certify that this Return is, to the best of our knowledge and belief, correct.

Chief Accountant	*Chief Executive*
Name	*Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

Name	*Telephone Number*

PART 1 - CONCENTRATION OF FUNDING SOURCES

Table A - Significant funding providers **(HK$'000)**

Significant funding providers (including 10 largest banks, 10 largest non-bank customers, and any other bank or non-bank customer which has provided, on a group basis, funding exceeding 1% of the reporting institution's total liabilities)	Connected party of the reporting institution (Yes / No)*	Total amount	As % of total liabilities	Breakdown of total amount by remaining term to maturity				
				up to 1 month	exceed 1 month, up to 3 months	exceed 3 months, up to 6 months	exceed 6 months, up to 12 months	exceed 12 months
1. Banks								
2. Non-bank customers								

(Supplementary sheets may be attached if necessary)

* In case of a connected party of the reporting institution, mark "Yes". Otherwise, mark "No".

PART 1 - CONCENTRATION OF FUNDING SOURCES

Table B - Significant funding instruments

(HK$'000)

Significant funding instruments	Total amount	As % of total liabilities	Breakdown of total amount by remaining term to maturity				
			up to 1 month	exceed 1 month, up to 3 months	exceed 3 months, up to 6 months	exceed 6 months, up to 12 months	exceed 12 months
1. Deposits from retail customers							
(a) up to (and including) HK$500,000							
(b) exceed HK$500,000, up to (and including) HK$10,000,000							
(c) exceed HK$10,000,000							
(d) Total	0	0%	0	0	0	0	0
2. Deposits from other non-bank customers							
(a) up to (and including) HK$500,000							
(b) exceed HK$500,000, up to (and including) HK$10,000,000							
(c) exceed HK$10,000,000							
(d) Total	0	0%	0	0	0	0	0
3. Funding raised from banks							
4. Capital and debt instruments issued and outstanding							
(a) Capital instruments							
(b) Certificates of deposit							
(c) Debt securities (senior, unsecured, not structured)							
(d) Convertible securities (which do not fall within sub-item (a))							
(e) Asset-backed securities							
(f) Other capital or debt instruments (structured or otherwise) not included in sub-items (a) to (e)							
5. Other outstanding funding instruments used by the reporting institution to obtain funds exceeding 1% of total liabilities, but not otherwise included in items 1 to 4 (please specify)							

(Supplementary sheets may be attached if necessary)

PART 2 - UNENCUMBERED ASSETS AVAILABLE FOR SECURED BORROWING

(HK$'000)

Types of unencumbered assets	Total amount	Location of assets	
		Hong Kong	Overseas
1. Assets which are, or may be, acceptable as collateral under the MA's liquidity facilities and other contingency funding mechanisms			
(a) EF debt securities			
(b) Hong Kong Government bonds			
(c) RMB-denominated assets that can be used as collateral under RMB Liquidity Facility			
(d) US Treasury debt securities			
(e) AAA-rated securities not included in items (a) to (d)			
(f) Other investment grade securities			
(g) Interbank placements after deductions (Note)			
(h) Residential mortgage loans			
(i) Mortgage loans under Home Ownership Schemes or Private Sector Participation Schemes			
(ii) Mortgage loans which satisfy the purchasing criteria of The Hong Kong Mortgage Corporation Limited			
(iii) Other performing residential mortgage loans			
2. Assets which may be used as collateral for borrowing from overseas central banks or governments			
(a) *(For completion by reporting institutions incorporated in Hong Kong)* Assets held by the reporting institution (including its overseas branches or specified associated entities) that can be used as collateral for access to standing facilities offered by central banks or governments in host jurisdictions			
(b) *(For completion by reporting institutions incorporated outside Hong Kong)* Assets held by the Hong Kong branch of the reporting institution that can be used by its Head Office as collateral to borrow from the central bank or government in its home jurisdiction			
3. Other assets not included elsewhere, but may be used as collateral for secured borrowing in wholesale funding markets			
(a) Debt securities assigned with a 0% risk-weight under the standardized (credit risk) approach			
(b) Debt securities assigned with a non-0% risk-weight that is not more than 20% under the standardized (credit risk) approach			
(c) Other assets which are reasonably expected to have potential for use as collateral for secured borrowing purposes			
4. Memorandum item: Assets reported in items 1 to 3, which are posted by customers to the reporting institution as collateral that can be re-hypothecated by the institution (but have not yet been re-hypothecated)			

Note: Exclude any interbank placement which (i) may be the subject of possible set-off claims or (ii) is placed with a connected bank of the reporting institution.

PART 3 - COMMITTED FACILITIES

Table A - Committed facilities received from the MA, central banks, governments, banks or non-bank financial institutions, or Forward Commitment Facility received from The Hong Kong Mortgage Corporation Limited (if applicable) that are significant (10 largest of such facilities and any exceeding 1% of the reporting institution's total liabilities)

Name of facility provider	Connected party (Yes / No)*	Total contractual facility limit (HK$'000)	Irrevocable undrawn commitment (HK$'000)	Total amount drawn (HK$'000)
Total				

Table B - Committed facilities granted to banks or non-bank financial institutions that are significant (10 largest of such facilities and any exceeding 1% of the reporting institution's total liabilities)

Name of bank or non-bank financial institution to which the facility is granted	Connected party (Yes / No)*	Total contractual facility limit (HK$'000)	Irrevocable undrawn commitment (HK$'000)	Total amount drawn (HK$'000)
Total				

(Supplementary sheets may be attached if necessary)

* In case of a connected party of the reporting institution, mark "Yes". Otherwise, mark "No".

PART 4: MATURITY PROFILE AND SUPPLEMENTARY INFORMATION

A. Contractual maturity profile

(HK$'000)

On-balance sheet liabilities	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items										Balancing amount
		Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	
1 Deposits from non-bank customers												
(a) Pledged deposits												
(b) Demand, savings and current account deposits												
(c) Term, call and notice deposits												
2 Amount payable arising from securities financing transactions (other than securities swap transactions)												
3 Amount payable arising from derivative contracts												
4 Due to MA for a/c of Exchange Fund												
5 Due to overseas central banks												
6 Due to banks												
7 Debt securities, prescribed instruments and structured financial instruments issued and outstanding												
8 Other liabilities												
9 Capital and reserves												
10 Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Off-balance sheet obligations												
11 Irrevocable loan commitments or facilities granted												
(a) With dates and amounts of drawdown ascertained												
(b) Others (not included in sub-item (a))												
12 Contractual obligations arising from securities financing transactions (not included in item 2)												
13 Contractual obligations arising from derivative contracts (not included in item 3)												
14 Off-balance sheet obligations not included in items 11 to 13												
(a) With dates and amounts of payment ascertained												
(b) Others												
15 Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

PART 4: MATURITY PROFILE AND SUPPLEMENTARY INFORMATION

A. Contractual maturity profile

(HK$'000)

		Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items										Balancing amount
			Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	
On-balance sheet assets													
16	Currency notes and coins												
17	Amount receivable arising from securities financing transactions (other than securities swap transactions)												
18	Amount receivable arising from derivative contracts												
19	Due from MA for a/c of Exchange Fund												
20	Due from overseas central banks												
21	Due from banks												
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)												
	(a) Readily monetizable												
	(b) Not readily monetizable												
	(i) Pledged to customers												
	(ii) Others												
23	Acceptances and bills of exchange held												
24	Loans and advances to non-bank customers												
25	Other assets												
26	**Total**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Off-balance sheet claims													
27	Irrevocable loan commitments or facilities received												
	(a) With dates and amounts of drawdown ascertained												
	(b) Others												
28	Contractual claims arising from securities financing transactions (not included in item 17)												
29	Contractual claims arising from derivative contracts (not included in item 18)												
30	Off-balance sheet claims not included in items 27 to 29												
	(a) With dates and amounts of receipt of payment ascertained												
	(b) Others												
31	**Total**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
32	**Contractual Maturity Mismatch**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
33	**Cumulative Contractual Maturity Mismatch**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	

PART 4: MATURITY PROFILE AND SUPPLEMENTARY INFORMATION

B. Supplementary Information

(HK$'000)

Table B1

		Total amount	Contractual maturity of securities flows arising from securities financing transactions										Balancing amount
			Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	
34	Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)												
	(a) Readily monetizable through re-hypothecation												
	(b) Not readily monetizable												
	(i) Re-hypothecated												
	(ii) Others												
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of return to customers												
35	Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)												
	(a) Readily monetizable through re-hypothecation												
	(b) Not readily monetizable												
	(i) Re-hypothecated												
	(ii) Others												
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers												
36	Securities pledged to customers as collateral under securities financing transactions (to be returned to the reporting institution)												
37	Securities sold to customers under securities financing transactions (to be repurchased by the reporting institution)												

PART 4: MATURITY PROFILE AND SUPPLEMENTARY INFORMATION

(HK$'000)

Table B2		Total amount	Contractual maturity of securities flows arising from derivative contracts										Balancing amount
			Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	
38	Securities pledged to the reporting institution as collateral under derivative contracts (to be returned to customers)												
	(a) Readily monetizable through re-hypothecation												
	(b) Not readily monetizable												
	(i) Re-hypothecated												
	(ii) Others												
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of return to customers												
39	Securities pledged to customers as collateral under derivative contracts (to be returned to the reporting institution)												

(HK$'000)

Table B3		Total amount	Estimated cash flows arising from selected assets, liabilities and off-balance sheet items (based on behavioural assumptions)										Balancing amount
			Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	
40	Demand, savings and current account deposits (referred to in item 1(b)) - according to the lowest month-end balance recorded in past 12 months												
41	Irrevocable loan commitments or facilities granted (referred to in item 11(b)) - according to estimated dates and amounts of drawdown by customers												
42	Off-balance sheet obligations (referred to in item 14(b)) - according to estimated dates and amounts of payment to customers												
43	Loans and advances to non-bank customers (referred to in item 24) - according to estimated dates and amounts of repayment by customers												

PART 5 - LIQUIDITY COVERAGE RATIO BY SIGNIFICANT CURRENCIES

(to be reported by category 1 institutions only)

(HK$'000)

	A	B	C	D	E	F
	Total HQLA (before adjustments for 15% ceiling and 40% ceiling)	Total HQLA (after adjustments for 15% ceiling and 40% ceiling)	Total expected cash outflows	Total expected cash inflows (before 75% ceiling)	Total expected cash inflows (after 75% ceiling)	LCR (%) (= B ÷ (C – E))
HK dollars					0	#DIV/0!
US dollars					0	#DIV/0!
Renminbi					0	#DIV/0!
Other currencies which are significant to the reporting institution (please specify)						
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!
					0	#DIV/0!

(Supplementary sheets may be attached if necessary)

Completion Instructions

Return on Liquidity Monitoring Tools
Form MA(BS)23

INTRODUCTION

1. This Return collects information from authorized institutions (AIs) on a set of liquidity monitoring tools to facilitate the Monetary Authority (MA[1])'s on-going supervision and monitoring of liquidity risk, both for individual AIs and the banking sector as a whole. AIs are also expected to make use of these liquidity monitoring tools, where appropriate, to complement their liquidity risk management.

2. The Completion Instructions (CIs) for this Return should be read in conjunction with the *Return of Liquidity Position of an Authorized Institution* (Form MA(BS)1E) and the associated CIs. Unless otherwise specified or the context otherwise requires, the terms used in these CIs have the meanings adopted in the CIs for MA(BS)1E.

3. This Return consists of 5 parts:

   (i) Part 1 collects information on the funding sources that are significant to an AI, and the level of concentration of such funding sources;

   (ii) Part 2 collects information on an AI's available unencumbered assets that can be, or have the potential to be, used for the purposes of secured borrowing or raising additional sources of liquidity for the AI where necessary;

   (iii) Part 3 collects information on committed facilities received or granted by an AI;

   (iv) Part 4 collects information on the maturity profile of an AI's on- and off- balance sheet assets and liabilities for defined time bands, including contractual cash flows and securities flows arising from such assets and liabilities and supplementary information (i.e. an AI's estimation of cash flows for selected items). Such information will be used for analysing the AI's maturity mismatch positions and assessing its potential liquidity needs under different scenarios; and

   (v) Part 5 requires an AI (in the case of a category 1 institution) to report the key components of its Liquidity Coverage Ratio (LCR) by significant currency (i.e. denominated in individual currencies to which the AI has significant exposures).

[1] In this document, the term "MA" refers to "Monetary Authority" or "Hong Kong Monetary Authority", as the context so requires.

The key components are high quality liquid assets (HQLA), total expected cash outflows and total expected cash inflows (before and after the application of relevant ceilings). Such information will facilitate the MA's ongoing monitoring of the relevant AI's potential currency mismatch position under the LCR.

GENERAL INSTRUCTIONS

Bases of reporting

4. AIs should compile this Return on ~~the same bases of reporting as they use for compiling MA(BS)1E.[2] This means (where applicable to the AI)~~

(i) Hong Kong ~~O~~office basis: for all AIs (whether incorporated in or outside Hong Kong); and

(ii) u~~U~~nconsolidated basis: only for AIs incorporated in Hong Kong that ~~have one or more overseas branches~~ are subject to rule 10(1)(b), but not rule 11(1), of the Banking (Liquidity) Rules (BLR); ~~and~~
or
c~~C~~onsolidated basis: only for AIs incorporated in Hong Kong that ~~have one or more specified associated entities, unless otherwise specified in the transitional arrangements set out in paragraph 6 below~~ are subject to rule 11(1) of the BLR.

Reporting frequency and submission timeline

5. ~~The official submission of Parts 1 to 3 of this Return by AIs will start from the position of 31 December 2015, and that of Parts 4 and 5 will start from the position of 30 June 2016. Subject to the transitional arrangements provided in paragraph 6 below,~~ ~~a~~All AIs are required to submit this Return (i.e. a separate copy of this Return for each basis of reporting applicable to the AI) to the MA ~~not later than one calendar month after the last day of each month (i.e. the month-end reporting date)~~according to the frequencies and timelines specified below. If the submission date is not a working day, it will be deferred to the next working day.

- Parts 1 to 3: to be submitted monthly within 1 month after each month-end; and
- Parts 4 and 5: to be submitted quarterly within 6 weeks after each quarter-end.

~~**Transitional arrangements**~~

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

~~6. The following transitional arrangements apply for reporting under this Return:~~

- ~~the frequency of submission will be extended to a quarterly basis (instead of monthly) until the submission of this Return based on the position of 31 December 2016 is made. During this transitional period, AIs are required to complete the relevant Parts of this Return based on the month-end positions of December 2015, March 2016, June 2016, September 2016 and December 2016; and~~

- ~~reporting under this Return on a consolidated basis will initially be applicable only to Part 5 (i.e. LCR by significant currencies) when the reporting under this Part by category 1 institutions start from the position of 30 June 2016.~~

~~The MA will review whether there is a need to extend these transitional arrangements after December 2016.~~

~~7.~~6. Notwithstanding ~~the implementation of~~ the above ~~transitional~~ reporting arrangements, it is ~~still~~ imperative for AIs to establish adequate systems and procedures which are capable of producing all of the information necessary for the compilation of the liquidity monitoring tools specified in this Return ~~(and on a consolidated basis in the case of locally incorporated AIs)~~ as and when necessary in order to facilitate their liquidity risk management. (In other words, AIs must be able to produce information for risk management purposes ~~at a greater frequency~~ more frequently and swiftly than that required for regulatory reporting.)

Valuation of assets, liabilities, obligations, cash flows and securities flows

~~8.~~7. Unless otherwise specified, all assets, liabilities, obligations, cash-flow or securities-flow items reported in this Return should be measured on the basis of their "principal amount". In general, the "principal amount" of marketable assets should be measured at fair value irrespective of the applicable accounting standards. For other on-balance sheet assets, liabilities, obligations and cash-flow items, the "principal amount" means the book value (including, where applicable, any accrued interest up to the month-end reporting date) as determined according to the applicable accounting standards. For off-balance sheet items, the "principal amount" means the contracted amount or, in the case of an undrawn or partially drawn facility, the undrawn amount. Where the trade date of a transaction is different from the settlement date of the transaction, the relevant asset, liability, obligation, cash-flow or securities-flow item arising from the transaction should be reported based on the trade date.

Reporting currencies

~~9.~~8. Unless specified otherwise, the figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

~~10.~~9. In Part 5 of this Return, AIs which are category 1 institutions are required to provide liquidity information for the calculation of the LCR by "significant currencies". A currency is considered to be significant to an AI if the AI's liabilities denominated in that currency account for 5% or more of its total liabilities (including shareholders' funds).[3] (Although AIs are not required to report currency-specific information in other parts of this Return, it is still crucial for them to put in place adequate systems and procedures to ensure that they have the capacity to provide such information if requested by the MA.)

Determination of contractual maturity

~~11.~~10. In Parts 1 and 4, reporting institutions will need to report the relevant assets, liabilities, obligations or cash flows in specific time buckets. For the purposes of reporting under these Parts, a time bucket measured by "day" should be determined according to "working day". A time bucket measured by "month" or "year" should be determined according to "calendar month" or "calendar year". In determining the contractual maturity date (or the remaining term to maturity) of an asset, liability, obligation or cash-flow item, reference should be made to its contractual terms unless otherwise specified. If there are options for prepayment or deferred payment embedded in the contractual terms that may alter the contractual maturity date of an asset, liability, obligation or cash-flow item, the relevant maturity date should be determined according to the following approach:

---

[3] ~~Consistent with footnote 9 of the CIs for MA(BS)1E, the following provides guidance on how to apply the 5% benchmark under this Return:~~In applying this 5% benchmark to assess whether an AI has significant exposures to individual currencies on the Hong Kong office basis, the AI should conduct the assessment by reference to the "total liabilities" figure reported by it in item 11 of the monthly *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1). This assessment should at least be conducted by the relevant AI monthly.

If a locally incorporated AI has any overseas branch and/or specified associated entity, the AI should also assess periodically whether it has significant exposures to individual currencies on an unconsolidated basis or consolidated basis (~~or on both bases~~as the case may require under paragraph 4 of these CIs). This assessment on an unconsolidated basis should be based on the "total liabilities" figure reported by the AI in item 11 of the quarterly *Return of Assets and Liabilities of an Authorized Institution* (combined position) (Form MA(BS)1B). The frequency of assessment should therefore be at least quarterly. For the assessment on a consolidated basis, a locally incorporated AI may measure the benchmark by reference to its consolidated total liabilities (including shareholders' funds) published in its latest financial statements. This assessment on a consolidated basis should be conducted at least semi-annually once the required consolidated "total liabilities" figure is available. To avoid doubt, it is not necessary for an AI to compile a figure for its consolidated total liabilities based on the regulatory scope of consolidation solely for the purpose of applying the 5% significance benchmark.

(i) If an AI's customer[4] has an option to defer payment to the AI in relation to an asset (or an inflow arising from the asset), the AI should assume that the customer will exercise the option. If however the AI has an option to advance the receipt of payment from its customer in relation to an asset (or an inflow arising from the asset), the AI should assume that the option will not be exercised, unless the AI has already notified its customer that it will exercise the option.

(ii) If an AI has an option to advance payment in relation to a liability or obligation (or the associated outflow) to a customer and there is market expectation that the AI will exercise the option, the AI should assume that the option will be exercised.[5] If however the AI has an option to defer payment in relation to a liability or obligation (or the associated outflow) to a customer, the AI should assume that the option will not be exercised, unless the AI has already notified its customer that it will exercise the option.

[4] For the purposes of this Return, a "customer" includes a counterparty.

[5] This treatment takes into account the possible interaction between an AI and its creditors. For example, if the liability or obligation of an AI (e.g. debt securities issued) is callable at its discretion and the market expects the AI to exercise the option, there may be a case for assuming that the AI will indeed exercise the option for reputation reasons (otherwise the market may perceive the AI as having liquidity problems).

SPECIFIC INSTRUCTIONS

Part 1 Concentration of funding sources

Table A – Significant funding providers

~~12.~~11. Table A of this Part collects information on the reporting institution's 10 largest bank customers[6], 10 largest non-bank customers[7], as well as any other bank or non-bank customer that has provided, on a group basis where applicable[8], funding to the institution exceeding 1% of the institution's total liabilities (including shareholders' funds) at the month-end reporting date[9]. Report the total amount[10] of funding raised from, and hence payable (or repayable, same below) to, these funding providers at book value (including any accrued interest, where applicable), and provide a breakdown of the total amount according to the remaining term to maturity of such

---

6 In this Return, the term "bank" has the meaning given by section 2(1) of the Banking (Capital) Rules (BCR).

7 In this Return, the term "non-bank customer" means a customer (which is not a bank) of an AI. A non-bank customer may be the HKSAR Government, the MA, any government or central bank (or monetary authority) of a jurisdiction outside Hong Kong, international organization, multilateral development bank, non-bank financial institution, corporate, or any other legal entity.

8 If an AI has raised funding from two or more customers that are connected to the same group, the AI should report the aggregate amount of funding raised from these customers as if they were a single customer.

For reporting under Table A of Part 1, two or more customers that are "connected to the same group" means any of the following:
(a) a subsidiary and its holding company;
(b) companies which are subsidiaries of the same holding company;
(c) the headquarters and the branches (in the case of a bank customer group); and
(d) any persons (whether individuals or entities) which are regarded by the reporting institution as being affiliated to the same customer group in the course of the reporting institution's liquidity management.

If an AI has raised funds from banks and non-bank customers which are connected to the same group, where the aggregate amount of such funds raised from the group is one of the 10 largest amounts raised from banks or non-bank customers, or exceeds 1% of the AI's total liabilities, the AI should report the portion of funds raised from the banks in that customer group in item 1 (e.g. with annotation such as "ABC Group – banking entities"). The other portion of funds raised from the non-bank customers in that group should be reported in item 2 (e.g. with annotation such as "ABC Group – non-bank entities"). This treatment also applies in the case of funding raised from banks and non-bank customers belonging to the AI's own group.

9 In this Return, unless otherwise specified, "funding" means money raised by, or lent to, an AI. Typical examples include, but are not limited to, deposits taken from customers, interbank loans or placements received from counterparties, proceeds from issuance of bonds or certificates of deposit, and money raised under securities financing transactions (e.g. repo transactions). "Funding" does not include reserves (e.g. retained earnings), current profit/loss and those liabilities (e.g. operating expenses) that are not incurred by money being raised by, or lent to, the AI, unless otherwise specified.

The 1% benchmark should be measured on the same basis as that described in footnote ~~3~~2 of these CIs.

10 "Total amount" means the sum of the principal amounts of those assets, liabilities, obligations or cash flows that need to be reported in a particular item in this Return. "Total amount" should be reported on a gross basis (i.e. without netting other assets, liabilities, obligations, cash flows, or collateral), unless otherwise specified. For all references to "total amount" in this Return, the valuation bases should follow the instructions set out in paragraph ~~8~~7 of these CIs.

funding.[11] Indicate in the second column of this Table whether any group of funding providers reported in item 1 or 2 are connected parties[12] of the institution. If the disclosure of customer names is restricted by any laws, the institution may complete this Table by assigning codes to represent the customers concerned, provided that such codes are used consistently.

Table B – Significant funding instruments

~~13.~~12. Table B of this Part collects information on significant funding instruments used by the reporting institution to obtain funding. Report the book value (including accrued interest where applicable) of the instruments. The first 4 items are deemed to be significant funding instruments and should be reported, irrespective of whether the 1% benchmark is exceeded.

(i) Report in item 1 the total amount of deposits taken by the institution from retail customers (i.e. individuals). These deposits should be slotted into sub-items (a) to (c) according to the amount of deposit taken from each such customer.[13]

---

[11] For example, funding raised from a bank should be reported in the column of "up to 1 month" if the funding will mature within 1 calendar month, or the funding is repayable on demand or subject to a notification period within 1 calendar month.

[12] For the purposes of this Return, a "connected party" of an AI can be a "connected bank" or a "connected non-bank customer", where –

- a "connected bank" of an AI may include –
  - (i) if the AI is incorporated in Hong Kong, its parent bank, associated entity (which is a bank), or "sister" bank (i.e. the bank is also a subsidiary of its parent bank);
  - (ii) if the AI is incorporated outside Hong Kong, its Head Office, associated entity (which is a bank), or overseas branch (i.e. a "sister" branch of its Hong Kong branch);
- a "connected non-bank customer" of an AI may include any non-bank person that is –
  - (i) an associated entity of the AI;
  - (ii) a controller or minority shareholder controller (as defined in section 2(1) of the Banking Ordinance (BO)) of the AI and any relative (as defined in section 79(1) of the BO) of such controller or minority shareholder controller (being an individual); or
  - (iii) any director, chief executive or manager (as defined in section 2(1) of the BO) of the AI, and any relative of such director, chief executive or manager.

[13] The total amount of deposits taken from a depositor should be determined on the basis of each single depositor (instead of a group of related depositors). For example, if a retail customer has placed HK$300,000 in total (or an equivalent amount in foreign currencies) with an AI, that total amount of deposit should be reported in item 1(a), irrespective of whether that amount is placed in one (or more than one) deposit account. There is no need to combine the customer's total deposit with any other depositor for reporting under item 1 (or item 2, in case of a non-retail customer).

For a deposit held in a joint account, each account holder is assumed to have an equal share of the deposit, unless there is evidence showing otherwise. Following the above example, if the customer concerned also has a joint-name deposit account (i.e. an account opened jointly with another person) at the AI, where that account has a deposit balance of HK$1,000,000, the AI should assume that the customer is entitled to a half of that deposit balance (i.e. HK$500,000). Taking into account this part of the deposit in the customer's joint-name account, the total amount of deposits taken by the AI from that customer should be HK$800,000, which should be included in the reporting under item 1(b).

(ii) Report in item 2 the total amount of deposits taken by the institution from other non-bank customers. These deposits should be slotted into sub-items (a) to (c) according to the amount of deposit taken from each such customer.

(iii) Report in item 3 the total amount of all types of funding raised from or provided by other banks. For example, this item includes all types of borrowing from other banks, vostro account balances maintained by other banks at the reporting institution, and the amount of money raised through any transactions conducted by the institution with other banks with the purpose of obtaining funding (this may include, but is not limited to, foreign exchange transactions, derivatives transactions, and securities financing transactions conducted for funding purposes).

(iv) Report in item 4 the total amount of specific types of capital and debt instruments issued by the institution that are still outstanding, as specified in the following sub-items:

- Sub-item (a): capital instruments[14] that are recognis~~z~~ed as CET1 capital, Additional Tier 1 capital instruments or Tier 2 capital instruments under the BCR;

- Sub-item (b): negotiable debt instruments issued in the form of certificates of deposit;

- Sub-item (c): debt securities that are senior, unsecured, and not structured (e.g. plain vanilla bonds);

- Sub-item (d): securities that are convertible into equities (but which do not fall within sub-item (a));[15]

- Sub-item (e): asset-backed securities, the payments of which are secured by a pool of underlying assets or exposures (e.g. residential mortgage loans, credit card receivables, etc.); and

- Sub-item (f): any other capital or debt instruments (which may or may not be structured instruments) not otherwise covered in sub-items (a) to (e).

[14] Such instruments may be issued, for example, in the form of common equities, preference shares or subordinated debt securities.

[15] Such convertible securities may be issued in the form of bonds, preference shares or any other instrument.

(v) Report in item 5 the total amount of any other outstanding funding instrument (or a group of similar funding instruments) used by the institution to obtain funding, where the outstanding total amount exceeds 1% of the institution's total liabilities (including shareholders' funds). [16]

As in the case of Table A, the institution should provide in Table B a breakdown of the total amount of funding raised from the use of these significant funding instruments according to the remaining term to maturity of such instruments. For example, deposits (items 1 and 2) and funding raised from banks (item 3) without a definite term to maturity but repayable by the institution upon customer demand (or subject to a withdrawal notification period of not more than 1 calendar month) should be reported under the column of "up to 1 month". Debt or capital instruments issued by the institution without a definite term to maturity are regarded as "perpetual instruments", which should be reported under the column for "exceed 12 months" in item 4 or 5 (where applicable). However, any instrument with an embedded option that may alter its term to maturity should be reported in the appropriate time column taking into account the embedded option – please refer to paragraph ~~11~~10 above.

To avoid doubt, liabilities not arising from funding instruments or funding transactions need not be included in the reporting under this Table. For example,

- reserves (e.g. retained earnings) and current profit/loss are not regarded as "funding instruments" and therefore need not be included in the reporting under this Table;

- other liabilities that do not arise from the raising of funds (such as operating expenses payable by the reporting institution) are not covered by this Table;

- an AI selling securities short for trading or hedging purposes does not need to consider such transactions in reporting under this Table. (However, if a short position in securities is held by the AI in order to obtain funding (e.g. re-hypothecating customer collateral to enter into a repo transaction for funding purposes), then the repo transaction should be included in the reporting under this Table).

[16] For example, item 5 may include (but are not limited to) –
- the sum of amounts payable by the reporting institution under securities financing transactions;
- the sum of amounts of securities and financial instruments issued by the institution, other than those securities and instruments specified in item 4; and
- the sum of amounts of funds raised from offering investment products (such as derivatives and structured deposit products) to customers.

Part 2 Unencumbered assets available for secured borrowing

~~14.~~13. This Part collects information on the reporting institution's unencumbered assets that are on the institution's balance sheet (whether in the trading book or banking book) as well as collateral received from customers that can be, and have not been, re-hypothecated, where these assets have the potential of being used by the institution as collateral to secure borrowing from the MA (for the account of the Exchange Fund), overseas central banks or governments, or wholesale funding markets. To the extent practicable, the institution should compile the required information taking into account the collateral policies of the MA or relevant overseas central banks (if applicable), as well as prevailing conditions in relevant secured funding markets. If an asset does not fall within the list of eligible types of collateral under the liquidity facilities or contingency funding mechanisms operated by the MA or other central banks, or if an asset is not reasonably expected (say, according to the institution's actual experience) to have the potential of being accepted as collateral in secured funding markets under prevailing market conditions, that asset should not be reported in this Part.

~~15.~~14. All assets reported in this Part should be free from encumbrances on the month-end reporting date. In particular, there must not be any regulatory, legal, contractual or other restrictions that inhibit the reporting institution from liquidating, selling, transferring or assigning any asset. To avoid doubt, an asset is not free from encumbrances if it is pledged, either explicitly or implicitly, to secure, collateralize or provide credit enhancement to a transaction; or is designated by the institution to cover specific expenses or short positions in that asset.[17]

~~16.~~15. To avoid double counting of assets reported in this Part, if an asset is eligible to be reported in more than one item, it should be reported in accordance with the order of items presented in this Part (i.e. the first item within which the asset falls).[18]

~~17.~~16. In this Part, the "location of assets" means the location of the custodian where an asset is kept, or, if the asset is not kept by a custodian, the location of the reporting institution's office where the asset is booked.

---

[17] An AI should assess whether an asset acquired by it (or received from its customers as collateral) is readily available for use as collateral for secured borrowing purposes, taking into account all practical constraints that may limit its ability to use the asset in such a way. If, for example, an asset purchased by the AI is not available for use as collateral for secured borrowing purposes until the settlement is completed, the asset cannot be regarded as an "unencumbered" asset. Otherwise, the asset may be regarded as "free from encumbrances" even before the settlement is completed, so long as it is not encumbered due to any other factor. (If an asset has been sold by the AI and hence is no longer recognised on its balance sheet on the "trade date", that asset should not be reported in this Part.)

[18] For example, unencumbered EF debt securities (i.e. Exchange Fund Bills and Notes) held by the reporting institution should be reported in item 1(a), and not in any other item under this Part.

~~18.~~17. Apart from reporting the information required under this Part, the reporting institution should, to the extent practicable, maintain adequate records of other information associated with the unencumbered assets[19]. The MA may, where necessary, require the institution to provide such information in the course of its ongoing risk-based supervision.

Item 1: Assets which are, or may be, acceptable as collateral under the MA's liquidity facilities and other contingency funding mechanisms

~~19.~~18. Report the relevant information in respect of those assets which are, or may be, acceptable as collateral under the MA's liquidity facilities and other contingency funding mechanisms.[20] The relevant liquidity facilities and contingent funding mechanisms operated by the MA include:

(i) Discount Window;
(ii) Renminbi Liquidity Facility;
(iii) Hong Kong Dollar Discount Facility for Hong Kong Government Bonds;
(iv) Term Repos Facility;
(v) the framework of the Lender of Last Resort (LOLR); and
(vi) any other liquidity facility or contingency funding mechanism that may be offered by the MA as and when necessary.

It should be noted that the MA's liquidity facilities and other contingency funding mechanisms may in practice not be accessible by all AIs on an equal footing.[21] Notwithstanding this, the reporting institution should still complete item 1 primarily based on whether the type of asset held by it falls within the list of eligible collateral specified in this item, except that sub-items (g) (Interbank placements after deductions) and (h) (Residential mortgage loans) should be reported only if the institution is a locally incorporated licensed bank.

For reporting under sub-item (g), the reporting institution should exclude its interbank placements which may, as assessed by the institution, be subject to possible set-off claims. This means that if the institution's placement at a bank may be used to settle the institution's liability to that bank, hence making the placement potentially

[19] For examples, AIs should maintain, and provide to the HKMA upon request, breakdowns of unencumbered assets by "significant currencies", details of the relevant custodians, expected monetized value taking into account the estimated haircuts on asset values that may be required by the relevant central bank or counterparties in secondary markets, and the internal policy documents specifying the responsible functions (and the required procedures) for monetizing the assets where necessary.

[20] A general introduction of liquidity support that may be provided by the MA to AIs is provided at: *http://www.hkma.gov.hk/eng/key-functions/monetary-stability/liquidity-support-to-banks.shtml*

[21] For example, the Discount Window may not be accessible by all AIs directly. Moreover, it would not normally be the policy of the MA to provide LOLR support to overseas incorporated banks' Hong Kong branches, except under special circumstances as set out in the MA's LOLR policy statement.

"encumbered", that placement should not be included in the reporting under sub-item (g).

For reporting under sub-item (h), the reporting institution should, to the extent practicable, calibrate its residential mortgage loans for the purposes of sub-item h(ii) taking into account the mortgage purchasing criteria, as updated by The Hong Kong Mortgage Corporation (HKMC) from time to time. If the institution is not certain whether any of its mortgage loans are in compliance with the HKMC's mortgage purchasing criteria, it should not report the relevant mortgage loans in sub-item h(ii). Nonetheless, it may report the loans in sub-item h(iii) if the loans are performing.

If the MA's collateral policy under a certain type of facility (e.g. the LOLR framework) has specific requirements on the credit rating of the relevant collateral (e.g. debt securities), the reporting institution should firstly consider the long-term or short-term issue-specific rating of the collateral. If the collateral does not have an issue-specific rating, then the institution may, for reporting under item 1 of this Part, take into account the issuer / guarantor's long-term credit rating (or if not available, short-term credit rating).

Item 2: *Assets which may be used as collateral for borrowing from overseas central banks or governments*

~~20.~~19. If a reporting institution incorporated in Hong Kong (including its overseas operations) has access to any liquidity support that may be provided by a central bank or government in an overseas jurisdiction, the institution should report in sub-item (a) the assets held by the institution that can be used as collateral to borrow from the overseas central bank or government.

~~21.~~20. If a reporting institution incorporated outside Hong Kong has access to any liquidity facility offered by the central bank or government in its home jurisdiction, its Hong Kong branch should report in sub-item (b) any assets held by the branch which, if up-streamed to its Head Office, can be used by its Head Office as collateral to obtain funding from the central bank or government (where applicable) in its home jurisdiction.

Item 3: *Other assets not included elsewhere, but may be used as collateral for secured borrowing in wholesale funding markets*

~~22.~~21. This item captures any other asset that is not reported in item 1 or 2, but is considered by the reporting institution (on reasonable grounds, say having regard to actual experience) as having the potential of being used as collateral for secured borrowing in wholesale funding markets (in Hong Kong or elsewhere). To enable the MA's assessment of the institution's funding capacity, the institution is required to provide –

(i) in sub-items (a) and (b), a breakdown of the reported debt securities in terms of the risk-weights assigned to these securities by reference to the standardized (credit risk) approach (STC approach) in the BCR[22]; and

(ii) in sub-item (c), any other assets that are not reported in sub-item (a) or (b), but may have a reasonable potential of being used as collateral for secured borrowing purposes.[23]

Item 4: *Memorandum item: Assets reported in items 1 to 3, which are posted by customers to the reporting institution as collateral that can be re-hypothecated by the institution (but have not yet been re-hypothecated)*

~~23.~~22. The reporting institution should identify any assets reported in items 1 to 3 above which are posted by its customers as collateral for obtaining funding from the institution, whereby the institution has a contractual right to re-hypothecate[24] such assets for secured borrowing purposes (but have not yet exercised such right). The total amount and location of such assets should be reported in this item.

[22] Although the STC approach does not apply to all AIs for regulatory capital purposes, the reporting institution (whether incorporated in or outside Hong Kong) should, for reporting under item 3 of this Part, calibrate their unencumbered assets required to be reported in sub-items (a) and (b) by reference to this approach.

[23] For example, unencumbered listed equities held by the reporting institution can be reported in this sub-item. Nonetheless, assets reported in this sub-item should not normally include loans, receivables, fixed assets or other similar types of assets, unless the reporting institution is originating or sponsoring a structured financing transaction (e.g. a securitization transaction) using such assets as underlying collateral.

[24] In this Return, the term "re-hypothecation" includes arrangements where the re-hypothecated asset may be (i) pledged as collateral or (ii) sold outright with a commitment to repurchase at a future date.

Part 3 Committed facilities

~~24.~~23. This Part collects information in respect of significant committed facilities[25] received or granted by the reporting institution to facilitate monitoring of the availability of funding sources to the institution and the institution's potential liquidity needs if the facilities granted by it are drawn. This Part covers only those committed facilities that are readily usable on the month-end reporting date. To avoid doubt, funding transactions conducted on a "deal-by-deal" basis (i.e. not under an established facility that remains usable within a specified facility period) should not be reported in this Part.

~~25.~~24. Report in Table A of this Part information relating to committed facilities received from the MA, central banks, governments, banks or non-bank financial institutions, or any Forward Commitment Facility ~~(FCF)~~ received from the HKMC, that are significant, i.e. the 10 largest of such facilities and any exceeding 1% of the reporting institution's total liabilities (both as determined by the amount of undrawn credit limit under the facilities). Report information relating to the 10 largest committed facilities, as well as any committed facilities exceeding 1% of the institution's total liabilities, granted to banks or non-bank financial institutions in Table B of this Part. In respect of each reported facility, indicate whether the facility is received from (or granted to) a connected party of the institution[26]. If the disclosure of customer names is restricted legally, identity codes may be used to complete these two Tables provided that such codes are used consistently. Also report the total contractual facility limit (whether used or not), "irrevocable" undrawn commitments (as assessed by the institution), and the total amount drawn under the facility as of the month-end reporting date.

---

[25] For the purposes of this Return, "committed facilities" has the meaning as elaborated in footnotes ~~33~~30 and ~~50~~47 of Return MA(BS)1E, with reference to the revised FAQ issued by the HKMA in early July 2015. As clarified in the revised FAQ, an AI should assess whether its commitment under a facility granted to customer is genuinely cancellable, taking into account not only the contractual terms of the facility (such as a clause to the effect the facility is unconditionally cancellable) but also all other relevant factors (such as maintenance of customer relationships and franchise value, and signalling effects to the market).

[26] For the meaning of "connected party", please refer to footnote ~~12~~11 of these CIs.

Part 4 Maturity profile and supplementary information

~~26.~~25. This Part collects information on the reporting institution's maturity profile covering its on- and off- balance sheet items, including (i) the total amounts (based on principal amounts as referred to in paragraph ~~8~~7 above) of these items as of the month-end reporting date; (ii) the amounts of cash flows or securities flows arising from these items to be slotted into specific time bands based on contractual maturity (or the institution's estimation where specified); and (iii) the balancing amounts (as referred to below and if applicable to these items). For the purposes of reporting under this Part, the institution should adhere to the following general instructions, in addition to those provided in paragraphs 4 to ~~11~~10 above, save to the extent that such following general instructions are superseded by a specific contractual arrangement in respect of a particular transaction, or specific instructions are otherwise provided in these CIs:

(i) In determining the remaining term to maturity of the institution's asset, liability, obligation, cash-flow or securities-flow items, it is to be generally assumed that such items will not be rolled over upon their contractual maturity, and the institution will not enter into any new transaction or contract in respect of such items, unless the institution has formally decided and completed all necessary contractual arrangements to roll over any such item, or to enter into any new transaction or contract.[27]

(ii) Unless otherwise specified, the institution should report an asset, liability, obligation, cash-flow or securities-flow item in the "Next day" column of the Tables under this Part (where applicable) if that item has no definite term to maturity but is receivable (or payable) on demand.[28] If an amount of cash or securities receivable (or payable) by the institution is subject to any advance notification requirement, that amount should be reported in the appropriate time bands according to –

- the length of the notification period if the institution has not issued the notice (or received the notice from the customer); or

[27] For example, a loan granted by an AI should be reported according to the earliest maturity date of the loan or, if the AI has agreed with the customer concerned to renew the loan, the maturity date of the loan after renewal. If the loan does not have a definite maturity date and is drawn under a credit facility with an expiry date (or the facility is subject to periodic review, such as an overdraft facility), the loan should be assumed to be repaid when the facility expires (or is due for periodic review).

[28] For example, such cash-flow items include demand, savings and current account deposits, vostro balances and nostro balances – please refer to the CIs for items 1, 6 and 21 in Section A of this Part.

- the expiry date of the notice if the institution has issued the notice (or received the notice from the customer).[29]

(iii) If the amounts receivable (or payable) by the institution involve lead time (say, for completing certain operational procedures), such lead time should be taken into account when the institution reports such amounts in this Part.

(iv) Any asset that has been overdue (but not rescheduled[30]) should be reported in the "Balancing amount" column of the Tables under this Part. If an asset generating a stream of payments (e.g. an instalment loan) is overdue in respect of the most recent instalment payment only, that overdue instalment should be reported in the "Balancing amount" column of the Tables under this Part, whilst the remaining instalments (that are not due for payment yet) should be reported in the appropriate time bands according to their respective contractual payment dates. If, however, the asset has been overdue for two or more instalments or classified by the institution as an asset under the "substandard", "doubtful" or "loss" grade,[31] or if there is any "material adverse event" providing objective evidence that the instalments will not likely be received[32], the entire amount of the asset should be regarded as overdue and reported in the "Balancing amount" column.

(v) If the institution has failed to fulfil a liability or payment obligation for any reason, report the entire amount of that liability or payment obligation in the "Next day" column of the Tables under this Part as soon as such a failure has occurred.

(vi) In line with the CIs provided in paragraph ~~8~~7, assets, liabilities, obligations or cash-flows measured at book value should include accrued interest up to the month-end reporting period (if any). If the timing for the reporting institution to pay or receive such accrued interest is different from the term to maturity of the underlying assets, liabilities or obligations, report such interest in the same item as with the underlying assets, liabilities or obligations, but under the time columns according to the interest payment or receipt schedules. There is no need to consider unaccrued interest.

---

[29] For example, an asset (or liability) that has no definite term to maturity and is callable at one day's notice should be reported under the "Next day" column if the notice has been issued (or received). If such a notice has not been issued (or received), the item should be reported in the "2 to 7 days" column.

[30] If an asset has been rescheduled, its contractual maturity should be determined according to its rescheduled term to maturity.

[31] Please refer to Part II of the *Return of Quarterly Analysis of Loans and Advances and Provisions* (Form MA(BS)2A)

[32] For example, the borrower of a loan has defaulted, or is found unable to honour its contractual obligations, or the lending AI has issued a notice to the borrower demanding full repayment of the loan but this demand has not been fulfilled by the borrower.

Section A: Contractual maturity profile

On-balance sheet liabilities

~~27.~~26. Item 1 – *Deposits from non-bank customers*

Report in the appropriate time bands of sub-item (a) the total amount of pledged deposits according to the contractual maturity dates of the relevant pledge arrangements (except for situations in which the reporting institution has allowed its customer to withdraw the pledged deposit before expiry of the pledge arrangement).[33] If, however, the reporting institution has practical difficulties in ascertaining the contractual maturity date of the pledge arrangement, or that arrangement will expire before the contractual maturity date of the pledged deposit, that deposit can be reported in this sub-item according to its contractual maturity date.

Report in the "Next day" column of sub-item (b) the total amount of deposits withdrawable on demand (including, for example, deposits maintained in current accounts and savings accounts) by non-bank customers, supplemented by additional information to be reported in item 40 (i.e. the lowest month-end balance of such deposits recorded by the reporting institution in the past 12 months) under Table B3 in Section B of this Part.

Report in the appropriate time bands of sub-item (c) the total amount of term deposits (including call deposits and any other deposits which are withdrawable on notice) due to non-bank customers according to the contractual maturity dates of the term deposits (or, where applicable, any early withdrawal date agreed by the institution in respect of a term deposit) .

~~28.~~27. Item 2 – *Amount payable arising from securities financing transactions (other than securities swap transactions)*

[33] In this Return, the term "pledged deposit" means a deposit placed with an AI by a customer (other than a bank) where the deposit is contractually pledged to the AI as collateral to secure the customer's liability or obligation to the AI.

The instructions for AIs to report a pledged deposit according to the contractual maturity date of the relevant pledge arrangement is based on the consideration that a pledged deposit is usually not withdrawable until expiry of the pledge arrangement. For example, if a deposit is pledged by a customer to the reporting institution to secure a loan or credit facility extended to the customer until a specific date (e.g. the repayment date of the loan, or the expiry date of the credit facility, as the case may be), the pledged deposit should be reported according to that specific date. If the reporting institution has allowed its customer to withdraw the pledged deposit before expiry of the pledge arrangement (for example, as a result of loan repayment, restructuring or collateral substitution), the amount of pledged deposit to be withdrawn should be reported in sub-item (a) according to the date of withdrawal ascertained by the institution.

If the pledge arrangement has expired (e.g. as a result of the full repayment of the loan or termination of the loan facility), the deposit should no longer be reported as "pledged deposit" under sub-item (a). It should be reported in sub-tem (b) or (c) instead.

Report in this item the total amount of funds payable by the reporting institution to all types of customers (including banks and non-bank customers)[34] arising from securities financing transactions[35] (other than securities swap transactions[36]) whereby the institution raises funds from its customers on a collateralized basis, if such funds payable are required to be shown as on-balance sheet liabilities under the applicable accounting standards. Such funds payable by the institution should be reported in the appropriate time bands according to the contractual maturity dates of the relevant securities financing transactions. Please refer to Annex 1 to these CIs for further guidance on the reporting of fund flows (and securities flows) arising from securities financing transactions in this Part.

~~29.~~28. Item 3 – *Amount payable arising from derivative contracts*

Report in the appropriate time bands of this item the total amount of funds payable by the reporting institution to all types of customers arising from derivative contracts according to the contractual payment dates, if the replacement costs of such contracts are required to be shown as on-balance sheet liabilities under the applicable accounting standards. Further guidance on the reporting of cash flows and securities flows arising from common types of derivative contracts (i.e. options, futures, forwards and swaps) for the purposes of this Part is set out in Annex 2 to these CIs.

~~30.~~29. Item 4 – *Due to MA for a/c of Exchange Fund*

Report in the appropriate time bands of this item the total amount of funds payable to the MA (for the account of the Exchange Fund) according to the contractual maturity dates of such funds payable, unless such funds payable are otherwise covered in item 2 or 3.

~~31.~~30. Item 5 – *Due to overseas central banks*

Report in the appropriate time bands of this item the total amount of funds payable to central banks in jurisdictions outside Hong Kong according to the contractual maturity dates of such funds payable, unless such funds payable are otherwise covered in item 2 or 3.

~~32.~~31. Item 6 – *Due to banks*

---

[34] The meanings of "banks" and "non-bank customers" are provided in footnotes ~~6~~5 and ~~7~~6 of these CIs.

[35] In this Return, the terms "securities financing transaction", "secured funding transaction", "secured lending transaction" and "securities swap transaction" have the respective meanings given in rule 17 or 39 of the BLR (as the case may be), except that the relevant meanings are generally applicable to all AIs for the purposes of this Return.

[36] Usually, a securities swap transaction involves an exchange of securities instead of money. This type of transaction is therefore not covered by item 2 (and item 17) in Section A of this Part. However, securities flows arising from securities swap transactions, together with those arising from other types of securities financing transaction, should be included in the relevant items in Section A (items 12 and 28 where applicable) and Section B (Table B1) of this Part.

Report in the appropriate time bands of this item the total amount of funds payable to other banks according to the contractual maturity dates of such funds, unless such funds payable are otherwise covered in item 2 or 3.

~~33.~~32. Item 7 – *Debt securities, prescribed instruments and structured financial instruments issued and outstanding*

Report in the appropriate time bands of this item the total amount of debt securities, prescribed instruments and structured financial instruments issued by the reporting institution that are still outstanding according to the redemption dates of such securities and instruments. Such debt securities and instruments are to be reported based on their redemption value, regardless of whether they are marketable. Perpetual debt securities and instruments (other than those capital instruments being reported under item 9) should be reported in the "Balancing amount" column under this item.

~~34.~~33. Item 8 – *Other liabilities*

Report in the appropriate time bands of this item the total amount of other on-balance sheet liabilities not included elsewhere according to the maturity dates of such liabilities. These liabilities include, for example, liabilities or payables arising from forthcoming settlement of transactions, operating expenses, tax-related liabilities and any liabilities in transit or in suspense accounts[37].

If the reporting institution has passed a resolution to distribute dividends (or any of its shareholders' funds) and the distributable amount has been recognis~~z~~ed as "dividends payable" (as a type of "other liabilities"), report the distributable amount in the appropriate time bands of this item according to the timing of distribution.

~~35.~~34. Item 9 – *Capital and reserves*

This item covers the reporting institution's capital and reserves, including paid-up capital, retained earnings and any other capital instruments[38] issued by the institution. Report the total amount of capital instruments with a definite term to maturity in the appropriate time bands according to the instruments' redemption dates. Other capital and reserves that are not expected to be distributed (or capital instruments of a

[37] Other liabilities of an AI that are maintained in suspense accounts include all credit balances relating to customers' funds but not held in their names, such as balances in accounts holding customers' funds awaiting investment or for the purpose of meeting acceptances or other payments, but exclude interest in suspense which has been netted off from corresponding accounts. Please refer to the CIs for item 10.2 of the *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1) for more details.

[38] Such capital instruments may include, for example, preference shares, subordinated debt securities and convertible securities.

perpetual nature which are not expected to be redeemed) should be reported in the "Balancing amount" column under this item.

If the institution has passed a resolution to distribute dividends (or any of its shareholders' funds) but the distributable amount has not yet been recognis~~z~~ed as "dividends payable" (and hence not covered in item 8), report the distributable amount in the appropriate time bands of this item according to the estimated timing of distribution.

Off-balance sheet obligations

~~36.~~35. Item 11 – *Irrevocable loan commitments or facilities granted*

This item covers all irrevocable loan commitments or facilities[39] granted by the reporting institution (excluding any amount that has already been drawn). Report in the appropriate time bands of sub-item (a) the total amount of irrevocable loan commitments or facilities according to the dates and amounts of drawdown as ascertained by the institution (for example, based on the dates and amounts of drawdown specified in customers' drawdown notices that have been accepted by the institution).

Report in the appropriate time bands of sub-item (b) the total amount of all other irrevocable loan commitments or facilities granted by the reporting institution[40] (excluding any amount that has already been drawn) according to relevant contractual terms and conditions (taking into account any contractual requirement on notification period – please refer to the general instructions provided in paragraphs ~~26~~25(ii) and (iii) above). This item will be supplemented by additional information to be reported in item 41 under Table B3 in Section B of this Part (reflecting the estimated dates and amounts of drawdown of those commitments or facilities based on the institution's behavioural assumptions on customer drawdown adopted in its liquidity risk management process).

~~37.~~36. Item 12 – *Contractual obligations arising from securities financing transactions (not included in item 2)*

Report in the appropriate time bands of this item the total amount of off-balance sheet obligations (whether in terms of cash or securities) payable by the reporting institution to all types of customers arising from securities financing transactions (such as

[39] Please refer to footnote ~~25~~24 of these CIs.

[40] Item 11(b) does not cover those loan commitments or facilities which are credibly cancellable as assessed reasonably by the reporting institution. See footnote ~~25~~24 above. Institutions will be expected to have in place processes and procedures to assess the extent to which facilities are genuinely cancellable in practice, going beyond sole reliance on contractual clauses to the effect that a facility is unconditionally cancellable.

securities repurchase transactions (repos), securities reverse repurchase transactions (reverse repos), securities swaps and similar types of transactions not otherwise reported in item 2) according to the contractual maturity dates of such transactions. Such obligations include, for example, the institution's obligations to pay money for repurchase of securities sold (or obligations to deliver securities repurchased by customers) under securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

~~38.~~37. Item 13 – *Contractual obligations arising from derivative contracts (not included in item 3)*

Report in the appropriate time bands of this item the total amount of off-balance sheet obligations of the reporting institution to all types of customers arising from derivative contracts (not otherwise reported in item 3) according to the contractual payment dates. Please refer to Annex 2 to these CIs for further guidance.

~~39.~~38. Item 14 – *Off-balance sheet obligations not included in items 11 to 13*

This item covers all other off-balance sheet obligations of the reporting institution (not otherwise reported in items 11 to 13), such as obligations arising from "direct credit substitutes", "transaction-related contingencies" and "trade-related contingencies" as defined in the BCR.

Report in the appropriate time bands of sub-item (a) the total amount of those off-balance sheet obligations that the reporting institution has been called upon to fulfil (and therefore the institution has ascertained the timing of payment and amount payable under the obligations) according to the expected dates and amounts of payment.[41] The institution's obligations arising from letters of credit issued and acceptances on trade bills should also be included in this item, to the extent that inward bills or trust receipt loans are expected to be granted under the relevant letters of credit or acceptances.

Report in sub-item (b) the total amount of those off-balance sheet obligations that the institution has not been called upon to fulfil. Break down the total amount into different time buckets according to the contractual notice periods specified for individual transactions if such obligations were to be called upon by the institution's

[41] Usually, if an AI has been called upon to fulfil an off-balance sheet obligation, the amount payable should be accounted for as an on-balance sheet liability. If however there are any circumstances that result in the amount payable not being recognised on balance sheet on the month-end reporting date, that amount should be reported in item 14(a).

Upon receipt of its customer's request for payment, an AI should normally have full knowledge of the timing of payment and amount payable by it. If, however, the exact timing or amount of payment is yet to be ascertained, the AI should report this obligation in this sub-item according to its reasonable estimation having regard to the relevant circumstances.

customers.[42] To avoid doubt, off-balance sheet obligations under "uncommitted facilities" (which are credibly cancellable as assessed by the institution – see footnotes ~~25~~24 and ~~40~~39) need not be reported in this sub-item.

Additionally, report in item 42 under Table B3 in Section B of this Part the institution's estimation of the dates and amounts of payment under the off-balance sheet obligations reported in this sub-item, taking into account any relevant behavioural assumptions adopted by the institution for such obligations in its liquidity risk management process, and other relevant circumstances.

On-balance sheet assets

~~40.~~39. Item 16 – *Currency notes and coins*

Report in this item the total amount of currency notes and coins held by the reporting institution. The amount readily usable by the institution should be reported in the "Next day" column under this item. If any portion of the currency notes and coins is in transit, report that amount in other time bands according to the expected time of receipt by the institution.

~~41.~~40. Item 17 – *Amount receivable arising from securities financing transactions (other than securities swap transactions)*

Report in this item the total amount of funds receivable by the reporting institution from all types of customers (including banks and non-bank customers) arising from securities financing transactions (other than securities swap transactions) whereby the institution lends funds to its customers on a collateralized basis, if such funds receivable are required to be shown as on-balance sheet assets under the applicable accounting standards. The funds receivable by the institution should be reported in the appropriate time bands according to the contractual maturity dates of the relevant securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

~~42.~~41. Item 18 – *Amount receivable arising from derivative contracts*

Report in the appropriate time bands of this item the total amount of funds receivable by the reporting institution from all types of customers arising from derivative contracts according to the contractual receivable dates, if the replacement costs of such contracts are required to be recognised as on-balance sheet assets under the

[42] For example, if an AI's customer is required to give the AI an advance notice of at least 7 days in order to request payment under an off-balance sheet obligation (but the AI has not received any such notice from the customer), the AI should report this obligation under the time band of "8 days to 1 month" in item 14(b). If the AI has to fulfil an obligation on demand, or if there is no contractual specification of a notice period, that obligation should be reported in the "Next day" column under item 14(b).

applicable accounting standards. Further guidance on the reporting of common types of derivative contracts (i.e. options, futures and swaps) for the purposes of this item is set out in Annex 2 to these CIs.

~~43.~~42. Item 19 – *Due from MA for a/c of Exchange Fund*

Report in the appropriate time bands of this item the total amount of funds due from the MA (for the account of the Exchange Fund) according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 17 or 18. This item includes, for example, the balance of funds maintained by the institution in its Hong Kong dollar Real Time Gross Settlement Account.

~~44.~~43. Item 20 – *Due from overseas central banks*

Report in the appropriate time bands of this item the total amount of funds due from central banks in jurisdictions outside Hong Kong according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 17 or 18.[43]

Reserves placed with an overseas central bank to meet minimum reserve requirements (and hence not withdrawable) should be reported in the "Balancing amount" column under this item. Withdrawable reserves should be reported according to the CIs provided in paragraph ~~26~~25 (particularly sub-paragraphs (ii) and (iii)) above.

Where applicable, the reporting institution's renminbi funds maintained in its Renminbi Fiduciary Account opened with the People's Bank of China through the Renminbi Clearing Bank should be reported in this item.

~~45.~~44. Item 21 – *Due from banks*

Report in the appropriate time bands of this item the total amount of funds due from other banks according to the contractual maturity dates on which the funds are to be received by the reporting institution, unless such funds receivable are otherwise covered in item 17 or 18.

~~46.~~45. Item 22 – *Debt securities, prescribed instruments and structured financial instruments held (net of short positions)*

This item covers debt securities, prescribed instruments and structured financial instruments held by the reporting institution, net of the institution's short positions in such

[43] This may be applicable if an AI has any banking operation in an overseas jurisdiction.

securities or instruments (if any).[44] Follow the general instructions provided in paragraph ~~8~~7 above in determining whether the securities and instruments held should be reported based on fair value or book value (including any accrued interest) under this item.

Report in sub-item (a) the total amount of those debt securities and instruments held by the reporting institution that are "readily monetizable" under the "Next day" column of this sub-item. In this regard, sub-item (a) includes (i) the stock of unencumbered "high-quality readily liquefiable assets"[45] maintained by the institution as liquidity cushion pursuant to section 8 of module LM-2 "Sound Systems and Controls for Liquidity Risk Management" in the Supervisory Policy Manual[46]; and (ii) other debt securities and instruments that will be redeemed on "Next day".

Report in the appropriate time bands of sub-item (b)(i) the total amount of those debt securities and instruments held by the reporting institution that are not "readily monetizable" (because the assets concerned have been pledged to the institution's customers) according to the contractual maturity dates on which such debt securities and instruments can be released from the relevant pledge arrangements.[47]

Report in the appropriate time bands of sub-item (b)(ii) the total amount of those debt securities and instruments held by the reporting institution that are not "readily monetizable" due to other reasons (i.e. not reported in sub-item (a) or (b)(i)) [48] according to the remaining term to maturity of the assets concerned, taking into

---

[44] If the reporting institution has any short positions in debt securities at the month-end reporting date, report those short positions (measured at fair value) in the "Next day" column (as a negative figure by deducting the short position from the amount of debt securities held reported in that column) under sub-item (a).

If the institution has entered into any transaction that will obligate it to take a short position in a debt security starting from a specific date (for example, starting from Day 7 from the month-end reporting date), that future short position should be reflected in sub-item (a) if the institution is also holding the underlying security to be shorted and that security held is reported in that sub-item. Otherwise, report that future short position in sub-tem (b)(ii) under the appropriate time column according to the date of the future short position (i.e. under the "2 to 7 days" column in this example).

[45] The term "high-quality readily liquefiable assets" is referred to in the MA's circular letter of 25 September 2013 in the context of the liquidity cushion required to be maintained by AIs under LM-2.

[46] For the purposes of reporting under this Part, the liquidity cushion maintained by an AI under LM-2 can be regarded as "readily monetizable" on the premises that (i) the debt securities and instruments have an established and active secondary market (whether in Hong Kong or elsewhere); and (ii) the AI manages its liquidity cushion in accordance with the requirements set out in LM-2, hence providing assurance that the liquidity cushion can be readily monetized (whether by outright sale or entering into repo-style transactions collateralized by the assets concerned).

[47] This reporting approach is based on the assumption that debt securities and instruments that have been pledged as collateral under securities financing transactions entered into by an AI can be readily monetized when released from the relevant pledge arrangements (whether by outright sale or entering into another repo-style transaction collateralized by the assets concerned).

[48] These debt securities and instruments may not have an active secondary market for repo or outright sale, or their marketability may be inhibited by any legal or regulatory restrictions, or operational limitations within the AI concerned.

account any embedded options that may alter their maturity profile (please refer to paragraph ~~11~~10 above for general instructions on the treatment of embedded options). Perpetual debt securities and instruments (without prepayment options) should be reported under the "Balancing amount" column of sub-item (b)(ii).

In line with the trade-day reporting approach as required in paragraph ~~8~~7 above, debt securities and instruments purchased by the reporting institution, but the settlement of which is yet to be completed, should also be reported in item 22. If the securities or instruments purchased are not monetizable until completion of the settlement, they should be reported in sub-item (b) according to the timing of settlement. If, however, the securities and instruments are readily monetizable (even before completion of the settlement), they can be reported under the "Next day" column in sub-item (a).

~~47.~~46. Item 23 – *Acceptances and bills of exchange held*

Report in this item the total amount of acceptances and bills of exchange held by the reporting institution representing claims on other banks and non-bank customers. Usance bills should be reported in the appropriate time bands according to the contractual credit periods. Sight bills should be reported in the appropriate time bands according to the expected dates of receipt of payment, taking into account, for example, any lead time required to complete all necessary documentation and operating procedures for execution of the payment.

~~48.~~47. Item 24 – *Loans and advances to non-bank customers*

Report in the appropriate time bands of this item the total amount of loans and advances extended by the reporting institution to its non-bank customers according to their remaining term to maturity. In the cases of instalment loans, revolving loans, overdue loans and rescheduled loans, follow the general instructions provided in paragraph ~~26~~25 above. Also provide supplementary information in item 43 under Table B3 in Section B of this Part based on the institution's estimation of the dates and amounts of repayment of the loans and advances concerned, taking into account behavioural assumptions affecting the prepayment or rollover behaviour of its customers and other relevant circumstances.

~~49.~~48. Item 25 – *Other assets*

This item covers other on-balance sheet assets (not reported in items 16 to 24), including, for example, assets or receivables arising from forthcoming settlement of transactions, investments (other than those included in item 22) and associated

interests or dividends receivable (if not reported elsewhere)[49], tax-related assets, and any assets in transit or in suspense accounts[50].

Report in the "Next day" column of this item the total amount of investments or holdings in marketable assets (e.g. gold and listed equities) only if such assets are readily monetizable (e.g. by virtue of their being traded in established and active secondary markets, whether in or outside Hong Kong). Otherwise, report the total amount of other assets that are not marketable in the appropriate time bands according to their remaining terms to maturity. Report the total amount of other assets that do not have a definite term to maturity (such as shareholding interests in unconsolidated subsidiaries and associated companies, properties and fixed assets) in the "Balancing amount" column of this item.

In line with the general instructions provided in paragraph ~~8~~7 above, marketable assets covered in this item should be reported based on fair value. Other assets that are not marketable should be reported based on book value (including any accrued interest).

Off-balance sheet claims

~~50.~~49. Item 27 – *Irrevocable loan commitments or facilities received*

This item covers only irrevocable loan commitments or facilities received by the reporting institution (excluding any amount that has already been drawn). Commitments or facilities received by the institution that are contractually revocable by the funding providers should not be included in this item (or elsewhere in this Part).

Report in the appropriate time bands of sub-item (a) the total amount of irrevocable loan commitments or facilities (that the institution has ascertained that it will, and is able to, draw) according to the dates and amounts of drawdown as ascertained by the institution, taking into account any lead time required for completing any documentation or operational procedures for the drawdown (e.g. notice of drawdown).

Report in the appropriate time bands of sub-item (b) the total amount of all other irrevocable loan commitments or facilities received by the reporting institution that are not reported in sub-item (a) (excluding any amount that has already been drawn) according to the general instructions provided in paragraph ~~26~~25 (particularly sub-paragraphs (ii) and (iii)) above.

---

[49] Such investments include those in listed equities, gold, commodities and other financial assets (and associated interest or dividends receivable on such investments).

[50] Other assets of an AI that are maintained in suspense accounts include all debit balances relating to customers' funds but not held in their names, such as balances awaiting transfer to customers' accounts. Please refer to the CIs for item 22.3 of the *Return of Assets and Liabilities of an Authorized Institution* (Form MA(BS)1) for more details.

If a contractually irrevocable loan commitment or facility received by the reporting institution is not readily usable or the institution has no intention to use the facility at any time, report the total amount of that loan commitment or facility under the "Balancing amount" column of this sub-item.

~~51.~~50. Item 28 – *Contractual claims arising from securities financing transactions (not included in item 17)*

Report in the appropriate time bands of this item the total amount of off-balance sheet claims (whether in terms of cash or securities) receivable by the reporting institution from all types of customers arising from securities financing transactions (such as reverse repos, securities swaps, and similar types of transactions not otherwise reported in item 17) according to the contractual maturity dates of such transactions. Such claims include, for example, the money receivable by the institution arising from a customer's repurchase of securities sold to the institution (and the securities receivable by the institution upon repurchase from its customer) under securities financing transactions. Please refer to Annex 1 to these CIs for further guidance.

~~52.~~51. Item 29 – *Contractual claims arising from derivative contracts (not included in item 18)*

Report in the appropriate time bands of this item the total amount of off-balance sheet claims of the reporting institution on all types of customers arising from derivative contracts (not otherwise reported in item 18) according to the contractual dates of receiving such claims. Please refer to Annex 2 to these CIs for further guidance.

~~53.~~52. Item 30 – *Off-balance sheet claims not included in items 27 to 29*

This item covers all other off-balance sheet claims of the reporting institution (i.e. not otherwise reported in items 27 to 29).[51]

Report in the appropriate time bands of sub-item (a) the total amount of those off-balance sheet claims according to the expected dates and amounts of payment of such claims as ascertained by the reporting institution. Such claims may, for example, arise from a situation in which the institution has requested its customer to fulfil a contractual obligation by payment to the institution on a specific date, and there is no indication that the customer will not fulfil the obligation.

[51] For example, if the reporting institution's customer (whether bank or non-bank) has a contingent obligation to the institution with a nature similar to a "direct credit substitute", "transaction-related contingency" or "trade-related contingency", the institution may include such a contingent claim on the customer in this item.

Normally, the reporting institution should have full knowledge of the timing and amounts of payment to be received under its off-balance sheet claims. If, however, the exact dates and amounts of payment to be received have yet to be ascertained, such claims can be reported in the "Balancing amount" column of sub-item (b).

The institution may also report in the "Balancing amount" column of sub-item (b) the total amount of those off-balance sheet claims under which the reporting institution has not requested its customers to fulfil their obligations of payment to the institution.

Section B: Supplementary information

~~54.~~53. Section B of this Part collects certain supplementary information to facilitate the MA's supervisory review of the reporting institution's maturity profile.

Table B1: Contractual maturity of securities flows arising from securities financing transactions

~~55.~~54. This Table captures maturity information on securities flows arising from all types of securities financing transactions (including securities swap transactions), which supplements maturity information collected under Section A of this Part in respect of cash flows arising from securities financing transactions (excluding securities swap transactions). Please refer to the CIs set out in paragraphs ~~56 to 59~~ 55 to 58 below and the illustrative examples provided in Annex 1 to these CIs for the relevant reporting requirements.

~~56.~~55. Item 34 – *Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)*

This item covers securities pledged to the reporting institution as collateral under securities financing transactions, which may be secured lending transactions, securities swap transactions and similar types of transactions.

Report in the "Next day" column of sub-item (a) the total amount of those pledged securities that the reporting institution can readily monetize through re-hypothecation.

Report in the appropriate time bands of sub-item (b)(i) the total amount of those pledged securities that have been re-hypothecated by the reporting institution (and hence cannot be readily monetized) according to the contractual maturity dates on which the securities will be released from the relevant re-hypothecation arrangements.

Report in sub-item (b)(ii) the total amount of those pledged securities that are not readily monetizable by the reporting institution for other reasons. For example, the securities

may not have an active repo market, or cannot be re-hypothecated because of legal, regulatory or contractual restrictions, or operational limitations within the institution.

Report in the appropriate time bands of sub-item (c) (as a memorandum item) the total amount of pledged securities reported in sub-items (a), (b)(i) and (b)(ii)) according to the contractual dates of return of those securities by the reporting institution to its customers.

~~57.~~56. Item 35 – *Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)*

This item covers securities purchased by the reporting institution under securities financing transactions, which may be reverse repos, securities swap transactions and similar types of transactions, where the securities will be repurchased by the institution's customers at a future date.

Report in the "Next day" column of sub-item (a) the total amount of those purchased securities that the reporting institution can readily monetize through re-hypothecation.

Report in the appropriate time bands of sub-item (b)(i) the total amount of those purchased securities that have been re-hypothecated by the reporting institution (and hence cannot be readily monetized) according to the contractual maturity dates on which the securities will be released from the relevant re-hypothecation arrangements.

Report in sub-item (b)(ii) the total amount of those purchased securities that are not readily monetizable by the reporting institution for other reasons. For example, the securities may not have an active repo market, or cannot be re-hypothecated because of legal, regulatory or contractual restrictions or operational limitations within the institution.

Report in the appropriate time bands of sub-item (c) (as a memorandum item) the total amount of purchased securities reported in sub-items (a), (b)(i) and (b)(ii)) according to the contractual dates of repurchase of those securities by the reporting institution's customers.

~~58.~~57. Item 36 – *Securities pledged to customers as collateral under securities financing transactions (to be returned to the reporting institution)*

This item covers securities owned by the reporting institution that have been pledged to its customers under securities financing transactions, which may be secured funding transactions, securities swap transactions and similar types of transactions.

Report in the appropriate time bands of this item the total amount of securities covered under this item according to the contractual dates of return of those securities to the reporting institution. To avoid doubt, securities received by the institution from

customers under a securities financing transaction and re-hypothecated by the institution in another securities financing transaction need not be reported in this item, as the information on such "re-hypothecated securities" is captured in item 34(b)(i) or 35(b)(i) as the case may require.

~~59.~~58. Item 37 – *Securities sold to customers under securities financing transactions (to be repurchased by the reporting institution)*

This item covers securities owned by the reporting institution that have been sold to its customers under securities financing transactions, which may be repos, securities swap transactions and similar types of transactions, but which will be repurchased by the institution at a future date.

Report in the appropriate time bands of this item securities covered under this item according to the contractual dates of repurchase of those securities by the reporting institution. As in item 36, securities received by the institution from customers under a securities financing transaction (e.g. reverse repo) and sold by the institution under another securities financing transaction (e.g. repo) need not be reported in this item, as the information on such "re-hypothecated securities" is captured in item 34(b)(i) or 35(b)(i) as the case may require.

Table B2: Contractual maturity of securities flows arising from derivative contracts

~~60.~~59. This Table captures maturity information on securities flows arising from derivative contracts, which supplements maturity information collected under Section A of this Part in respect of cash flows arising from such contracts. In addition to the CIs provided in paragraphs ~~61~~60 and ~~62~~61 below, please refer to further guidance and illustrative examples provided in Annex 2 to these CIs.

~~61.~~60. Item 38 – *Securities pledged to the reporting institution as collateral under derivative contracts (to be returned to customers)*

This item covers securities pledged to the reporting institution as collateral under derivative contracts. The methodology for reporting under the sub-items is similar to that applicable to item 34.

~~62.~~61. Item 39 – *Securities pledged to customers as collateral under derivative contracts (to be returned to the reporting institution)*

This item covers securities owned by the reporting institution that have been pledged to customers under derivative contracts. Report in the appropriate time bands of this item the total amount of securities covered under this item according to the contractual

dates of return of those securities to the institution. The methodology for reporting under this item is similar to that applicable to item 36.

Table B3: Estimated cash flows arising from selected assets, liabilities and off-balance sheet items (based on behavioural assumptions)

~~63.~~62. This Table collects information on the reporting institution's cash-flow estimations arising from certain assets, liabilities and off-balance sheet items, taking into account behavioural assumptions relevant to such items. The institution's cash-flow estimations for the purposes of reporting under this Table should be in line with its internal methodologies and assumptions for conducting cash-flow projections as part of its liquidity risk management process. Such methodologies and assumptions should themselves be consistent with the relevant guidance specified by the MA[52], and be practically feasible having regard to the relevant circumstances faced by the institution.

~~64.~~63. Item 40 – *Demand, savings and current account deposits (referred to in item 1(b)) – according to the lowest month-end balance recorded in past 12 months*

Report in the "Balancing amount" column of this item the lowest month-end aggregate balance of demand, savings and current account deposits (referred to in item 1(b) under Section A of this Part) as recorded by the reporting institution in the past 12 months (including the reporting month).

~~65.~~64. Item 41 – *Irrevocable loan commitments or facilities granted (referred to in item 11(b)) – according to estimated dates and amounts of drawdown by customers*

Report in the appropriate time bands of this item the total amount of irrevocable loan commitments or facilities granted by the reporting institution (referred to in item 11(b) under Section A of this Part) according to estimated dates and amounts of drawdown by customers of those commitments or facilities based on the institution's behavioural assumptions on liquidity needs arising from such commitments or facilities adopted in its liquidity risk management process.

~~66.~~65. Item 42 – *Off-balance sheet obligations (referred to in item 14(b)) – according to estimated dates and amounts of payment to customers*

Report in the appropriate time bands of this item the total amount of the reporting institution's off-balance sheet obligations (referred to in item 14(b) under Section A of this Part) according to the estimated dates of payment to customers and amounts payable under those obligations based on the institution's behavioural assumptions on

[52] Please refer to LM-2 (particularly sections 4, 5 and Annex A).

liquidity needs arising from such obligations adopted in its liquidity risk management process.

~~67.~~66. Item 43 – *Loans and advances to non-bank customers (referred to in item 24) – according to estimated dates and amounts of repayment by customers*

Report in the appropriate time bands of this item the total amount of loans and advances to non-bank customers extended by the reporting institution (referred to in item 24 under Section A of this Part) according to the estimated dates and amounts of payment by customers based on the institution's assumptions adopted in its liquidity risk management regarding the prepayment or rollover behaviour of its customers and the relevant circumstances faced by the institution.

Part 5 LCR by significant currencies (to be reported by category 1 institutions only)

~~68.~~67. In this Part, a reporting institution that is a category 1 institution should report the specified information regarding the constitution of the institution's LCR in respect of HKD, USD, Renminbi (irrespective of whether these currencies are "significant" to the institution as measured by the 5% benchmark), and any other "significant currency" (as determined in accordance with paragraph ~~10~~9 above) applicable to it. The specified information includes –

Column A Total HQLA (before adjustments for the 15% ceiling on level 2B assets and the 40% ceiling on the sum of level 2A assets and level 2B assets);

Column B Total HQLA (after adjustments for the 2 ceilings referred to in Column A;

Column C Total expected cash outflows;

Column D Total expected cash inflows (before application for the 75% ceiling calculated by reference to "total expected cash outflows"); and

Column E Total expected cash inflows (after application for the ceiling referred to in Column D).

~~69.~~68. In determining the values of the above components, the reporting institution should refer to the CIs provided in Part 2 of MA(BS)1E, except that the instructions associated with the treatment of Alternative Liquidity Approaches (as provided in Annex 1 to the CIs for MA(BS)1E) are not applicable for the purposes of reporting under Part 5 of this Return. Moreover, cash flows across different currencies should not be offset for the purposes of reporting under this Part. This means that –

(i) If a transaction generates outflows and inflows denominated in different currencies (e.g. foreign exchange forwards and cross currency swaps to be settled by exchange of notional amounts on a gross basis), the cash flows denominated in a specific currency ("currency X") should be included in the calculation of the denominator of the LCR in that currency, while the cash flows denominated in any other currency should not be included in that calculation. If, however, it is a cross currency transaction that can be settled on a net basis in currency X, only the net amount of cash flow in currency X is to be included in the calculation.

(ii) In the case of a securities financing transaction, where the funding raised or provided by the reporting institution is denominated in currency X and the

underlying securities are denominated in any other currency, the treatment of the outflows or inflows denominated in currency X remain the same as in the calculation of all-currency LCR. For example, if the institution has entered into a repo transaction whereby it has raised funding in currency X by posting level 1 qualifying securities denominated in another currency, it can still apply an outflow rate of 0% for calculating the expected cash outflow in currency X arising from that transaction, although the underlying securities are denominated in another currency.

(iii) In the case of a cash flow item denominated in currency X which can be calculated after deduction of collateral value, the collateral to be deducted must also be denominated in currency X. For example, in the calculation of expected cash outflows arising from potential drawdowns on committed facilities granted by a reporting institution, if the institution ascertains that the facility will be drawn in currency X, its loan commitment under that facility should be included in the calculation of LCR in currency X and only qualifying collateral denominated in currency X can be deducted.

(iv) If the currency denomination of cash flows arising from a transaction is uncertain, the institution should make a reasonable estimation of the likely currency denomination of the expected cash flows, taking into account the contractual terms and prevailing market conditions.

Hong Kong Monetary Authority
~~December 2015~~January 2017

Annex 1

Reporting of cash flows and securities flows arising from securities financing transactions (under Part 4 of this Return)

Introduction

1. This Annex provides illustrative examples on how cash flows and securities flows arising from securities financing transactions should be reported in Part 4 of this Return.[53]

Scenario 1 – Securities financing transaction under which securities are pledged by the reporting institution as collateral in exchange for a sum of money from the customer

2. On the reporting date, the reporting institution holds a stock of debt securities[54] with a fair value of $100, $20 of which have been pledged by the institution to its customer under a securities financing transaction with a remaining term to maturity of 1 month. The remaining stock of unencumbered debt securities ($80) is assumed to be readily monetizable. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

[53] The examples presented in this Annex cover mainly securities financing transactions that involve an exchange of a sum of money in return for securities, whether by way of pledge, outright sale (and repurchase) or outright purchase (and resale). In the case of securities swap transactions (which involve an exchange of securities), the securities flows arising from such transactions should follow the relevant treatments associated with securities flows as demonstrated in the examples. For instance, AIs may refer to the illustrations in Scenarios 1 and 3 for the reporting of securities flows under a securities swap transaction.

[54] In the examples presented in this Annex, it is assumed that debt securities are used as the underlying assets to support securities financing transactions. In the event that the underlying assets in such transactions are not debt securities, the reporting methodologies demonstrated in this Annex are still applicable, except that the inflows arising from those assets are to be reported in other items (e.g. item 25 – other assets) instead of item 22. It is also assumed the underlying assets are marketable and are therefore measured on the basis of fair value. Otherwise, the underlying assets should be measured on the basis of book value (including any accrued interest).

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)	20[55]			20
21	Due from banks	20[56]	20		
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	80[57]	80		
	(b) Not readily monetizable				
	(i) Pledged to customers	20[58]			20
	(ii) Others				

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
36	Securities pledged to customers as collateral under securities financing transactions (to be returned to the reporting institution)	20[59]			20

[55] This reflects the funds raised by the institution under the securities financing transaction, to be payable to the customer when the transaction is settled in 1 month's time.

[56] For simplicity's sake, all examples presented in this Annex disregard any possible haircuts that may be applied to the underlying securities in a real-life securities financing transaction. In addition, the funds raised by the institution under the transaction are assumed to be placed with other banks and usable on "next day", as reported in item 21. Notwithstanding these hypothetical assumptions, an AI should report real-life transactions under Part 4 taking into account the actual terms and conditions involved.

[57] As the remaining stock of debt securities ($80) is assumed to be "readily monetizable", this remaining stock should be reported in item 22(a) (under the "Next day" column). (If any portion of the remaining stock of debt securities, other than that already pledged to customers, is not readily monetizable for any other reasons, report that portion in item 22(b)(ii).)

[58] The portion of debt securities that has been pledged to customers should be reported in item 22(b)(i) according to the contractual dates on which the debt securities are released from the relevant pledge arrangements (i.e. no longer encumbered and readily monetizable).

[59] Table B1 in Section B of Part 4 is intended to specifically capture securities flows arising from securities financing transactions. The securities pledged by the institution in this scenario should also be reported in item 36.

Scenario 2 – Securities financing transaction under which securities are sold by the reporting institution to the customer for a sum of money (with a commitment to repurchase the securities at a future date)

3. This Scenario is similar to Scenario 1, except that the reporting institution has sold a portion of its stock of debt securities ($20) outright under a securities financing transaction (e.g. repo), with a commitment to repurchase those securities in 1 month's time. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	Contractual maturity profile	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)				
12	Contractual obligations arising from securities financing transactions (not included in item 2)	20[60]			20
21	Due from banks	20	20		
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	80	80		
	(b) Not readily monetizable				
	(i) Pledged to customers				
	(ii) Others				
28	Contractual claims arising from securities financing transactions (not included in item 17)	20			20

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
37	Securities sold to customers under securities financing transactions (to be repurchased by the reporting institution)	20			20

[60] Under Scenario 2, the institution does not have an on-balance sheet liability to repay the funds raised from the outright sale of securities under the transaction. However, the institution has a contractual obligation under the transaction to repurchase the securities sold, and repay the funds previously raised from the outright sale of securities (reportable in item 12), in 1 month's time.

Scenario 3 – Securities financing transaction under which securities are pledged by the customer to the reporting institution as collateral in exchange for a sum of money from the institution

4. Under this Scenario, assume that the reporting institution, apart from holding a stock of debt securities ($100), has received debt securities ($30) from its customer as collateral under a securities financing transaction with a remaining term to maturity of 1 month on the reporting date. All those securities held or received as collateral ($130) are assumed to be readily monetizable. It is also assumed that the institution has the right to re-hypothecate the pledged securities but has not exercised this right yet. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
6	Due to banks	30[61]	30		
17	Amount receivable arising from securities financing transactions (other than securities swap transactions)	30[62]			30
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	100[63]	100		

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
34	Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)				
	(a) Readily monetizable through re-hypothecation	30	30		
	(c) Memorandum item: Securities reported in sub-items (a) and (b) – according to contractual dates of return to customers				30

[61] For simplicity's sake, it is assumed that the institution has funded its lending under the transaction by interbank borrowing repayable by the institution on demand. The same assumption is adopted in the other examples that involve the institution providing funds to its customers.

[62] This reflects the funds provided by the institution to its customer, to be received when the transaction matures in 1 month's time.

[63] As the securities are pledged to the institution as collateral, these securities are not on-balance sheet assets reportable under item 22. Nonetheless, the pledged securities should be reported in item 34(a) as these securities are assumed under this scenario to be readily monetizable and the institution has the right of re-hypothecation which has not been exercised. The amount of pledged securities to be returned by the institution to its customer in 1 month's time should also be reported under item 34(c).

Scenario 4 – Securities financing transaction under which securities are purchased by the reporting institution from the customer for a sum of money (with a commitment to resell the securities at a future date)

5. This Scenario is similar to Scenario 3, except that the reporting institution has purchased debt securities ($30) outright under a securities financing transaction (e.g. reverse repo), with a commitment to resell the securities in 1 month's time. The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	Contractual maturity profile	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	30			30
17	Amount receivable arising from securities financing transactions (other than securities swap transactions)				
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	130[64]	130		
28	Contractual claims arising from securities financing transactions (not included in item 17)	30			30

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
35	Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
	(a) Readily monetizable through re-hypothecation	30	30		
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

[64] Under Scenario 4, the institution's purchase of the securities should be reflected in item 22(a). The institution does not have an on-balance sheet amount receivable arising from the transaction (item 17). However, it has an off-balance sheet claim on its customer reportable under item 28 (representing the funds to be received when its customer repurchases the securities in 1 month's time). Simultaneously, the institution has an off-balance sheet obligation to return the securities to its customer (as reflected in item 12).

The amount of securities purchased (and to be resold) by the institution should also be reported in item 35(a) (and item 35(c)) under Table B1.

Scenario 5 (Extension of Scenario 3): Portion of securities pledged to the reporting institution under the securities financing transaction in Scenario 3 is re-hypothecated (as collateral) under another securities financing transaction

6. As an extension of Scenario 3, on the same reporting date, a portion of the debt securities ($25 out of $30) received by the reporting institution as collateral under the securities financing transaction in Scenario 3 (which has a remaining term to maturity of 1 month) is re-hypothecated by the institution as collateral in exchange for a sum of money from another customer under another securities financing transaction (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)	25[65]		25	
6	Due to banks	30	30		
17	Amount receivable arising from securities financing transactions (other than securities swap transactions)	30			30
21	Due from banks	25	25		
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	100	100		

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
34	Securities pledged to the reporting institution as collateral under securities financing transactions (to be returned to customers)				
	(a) Readily monetizable through re-hypothecation	5[66]	5		
	(b) Not readily monetizable				
	(i) Re-hypothecated	25		25	
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of return to customers				30

[65] This reflects the funds raised by the institution (for a period of 7 days) through re-hypothecating a portion of the securities pledged to the institution. The funds raised by the institution are assumed to be placed with other banks and usable on "next day" as reported in item 21 – please refer to footnote ~~56~~55 of these CIs.

[66] As a portion of the debt securities pledged to the institution has been re-hypothecated by the institution, the remaining portion ($5) of the securities is reported in item 34(a), given that this remaining portion is still readily monetizable. The re-hypothecated securities ($25) should be reported in item 34(b)(i), which will be released from re-hypothecation in 7 days' time.

Scenario 6 (Extension of Scenario 4): Portion of securities purchased by the reporting institution under the securities financing transaction in Scenario 4 is re-hypothecated (as collateral) under another securities financing transaction

7. As an extension of Scenario 4, on the same reporting date, a portion of the debt securities ($25 out of $30) purchased by the reporting institution under the securities financing transaction in Scenario 4 (e.g. reverse repo) (which has a remaining term to maturity of 1 month) is re-hypothecated by the institution as collateral in exchange for a sum of money from another customer under another securities financing transaction (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	**Contractual maturity profile**	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)	25[67]		25	
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	30			30
17	Amount receivable arising from securities financing transactions (other than securities swap transactions)				
21	Due from banks	25	25		
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	105	105		
	(b) Not readily monetizable				
	(i) Pledged to customers	25		25	
28	Contractual claims arising from securities financing transactions (not included in item 17)	30			30

[67] The funds ($25) raised by the institution through re-hypothecation of debt securities purchased under the securities financing transaction in Scenario 4 are repayable in 7 days' time, and hence should be reported in item 2. The funds raised are assumed to be placed with other banks and usable on demand (as reported in item 21). The re-hypothecated securities are still on the institution's balance sheet but pledged to customers for 7 days (as reported in item 22(b)(i)).

The securities financing transaction in Scenario 4 (in which debt securities of $30 are purchased) and the associated re-hypothecation of a portion of the securities purchased ($25 out of $30) should also be reported in item 35 under Table B1 as indicated.

Table B1	Total amount	Contractual maturity of securities flows arising from securities financing transactions		
		Next day	2 to 7 days	8 days to 1 month
35 Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
(a) Readily monetizable through re-hypothecation	5	5		
(b) Not readily monetizable				
(i) Re-hypothecated	25		25	
(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

Scenario 7 (Variation of Scenario 6) - Portion of securities purchased by the reporting institution under the securities financing transaction in Scenario 4 is sold by the institution under another securities financing transaction for a sum of money (with a commitment to repurchase the securities in 7 days' time)

8. This Scenario is similar to Scenario 6, except that the portion of debt securities ($25 out of $30) purchased by the reporting institution under the securities financing transaction in Scenario 4 (e.g. reverse repo) (which has a remaining term to maturity of 1 month) is sold by the institution (instead of being pledged as collateral under Scenario 6) in another securities financing transaction subject to a repurchase obligation (e.g. repo) (which has a remaining term to maturity of 7 days). The cash flows and securities flows under this Scenario should be reported in Part 4 of this Return as follows:

A.	Contractual maturity profile	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			Next day	2 to 7 days	8 days to 1 month
2	Amount payable arising from securities financing transactions (other than securities swap transactions)				
6	Due to banks	30	30		
12	Contractual obligations arising from securities financing transactions (not included in item 2)	55[68]		25	30
21	Due from banks	25	25		
22	Debt securities, prescribed instruments and structured financial instruments held (net of short positions)				
	(a) Readily monetizable	105	105		
28	Contractual claims arising from securities financing transactions (not included in item 17)	55		25	30

Table B1		Total amount	Contractual maturity of securities flows arising from securities financing transactions		
			Next day	2 to 7 days	8 days to 1 month
35	Securities purchased by the reporting institution under securities financing transactions (to be repurchased by customers)				
	(a) Readily monetizable through re-hypothecation	5	5		
	(b) Not readily monetizable				
	(i) Re-hypothecated	25		25	
	(c) Memorandum item: Securities reported in sub-items (a) and (b) - according to contractual dates of repurchase by customers				30

[68] This represents the institution's cash and securities outflows arising from 2 irrevocable off-balance sheet obligations, i.e. (i) repurchasing that portion of "repo securities" ($25) in 7 days' time, and (ii) selling the whole portion of securities purchased under the reverse repo ($30) in 1 month's time. These obligations should be reflected in item 12. At the same time, the corresponding off-balance sheet claims, i.e. (i) securities ($25) to be received upon expiry of the repo in 7 days' time and (ii) the funds ($30) to be received upon expiry of the reverse repo in 1 month's time, should be reflected in item 28.

Annex 2

Reporting methodologies for payables and receivables arising from derivative contracts (under Part 4 of this Return)

1. This Annex provides specific guidance for the reporting of contractual cash flows and securities flows (whether on- or off-balance sheet) arising from common types of derivative contracts (i.e. options, futures and swaps).

2. For the purposes of Part 4 of this Return, a derivative contract is assumed to be settled on a net basis (unless otherwise specified in certain types of swap contracts as presented in this Annex). It should however be noted that the netting of payables and receivables across derivative contracts are not allowed, irrespective of whether the reporting institution has established a valid bilateral netting agreement with its customer.[69]

Options

3. If an option is "in the money"[70] on the reporting date, it is assumed that the option will be exercised by the option holder on the earliest possible exercise date[71].

- If the option is held by the reporting institution, report the expected amount receivable by the institution under the appropriate time band in item 18 or 29, depending on whether the option position is recognis~~z~~ed as an on-balance sheet item under the applicable accounting standards.

- If the option is written by the reporting institution (and held by its customer), report the expected amount payable by the institution under the appropriate time band in item 3 or 13, depending on the applicable accounting standards.

---

[69] Whilst a bilateral netting agreement allows the contractual parties to offset the liabilities and claims between them in the case of any party going into default, the maturity profile is intended to reflect an AI's liquidity position under a "business as usual" situation, meaning that neither the AI nor its counterparty is assumed to go into default unless any such event has actually occurred.

[70] For options, "in the money", "at the money" and "out of the money" have the following meanings:

	"in the money"	"at the money"	"out of the money"
Call options	S > X	S = X	S < X
Put options	S < X	S = X	S > X

"S" means the spot price of the underlying asset, and "X" means the exercise price of the underlying asset.

[71] The earliest possible exercise date should be determined according to the terms and conditions of an option. For example, a "European option" can be exercised only on the final maturity date. In the case of an "American option", the earliest possible exercise date may be "next day", taking into account any contractual notice period for early exercise.

The expected amount receivable or payable by the institution under an option can be approximated by the replacement cost of the option (measured at fair value on the reporting date), only if the option will not generate periodic inflows or outflows by the institution before the option is settled ultimately. Otherwise, the institution should report such periodic inflows or outflows (estimated by reference to the current market prices or rates on the month-end reporting date) in the appropriate time buckets.

4. If an option contract is "at the money" or "out of the money" on the reporting date, it is assumed that the option will not be exercised by the holder and therefore can be disregarded for the purposes of Part 4 of this Return.

Futures and forwards

5. If the reporting institution has entered into a futures contract (or a forward contract), report the mark-to-market gain arising from the contract in item 18 or 29 (or report the mark-to-market loss arising from the contract in item 3 or 13), depending on whether the mark-to-market gain or loss of that contract is recogni~~z~~sed as an on-balance sheet item according to the applicable accounting standards. The mark-to-market gain or loss should be reported in the "Next day" column if the institution can square its position in a contract readily in the market. Otherwise, report the mark-to-market gain or loss under the appropriate time period according to the earliest possible settlement date as specified contractually.

Swaps

6. If the reporting institution has entered into a swap contract[72] that will create a series of funds payable and receivable by the institution throughout the term of the contract, the replacement cost of the contract (as recogni~~z~~sed under the applicable accounting standards) may not always be able to reflect the potential impacts of this contract on the institution's liquidity profile. The periodic payables and receivables arising from swap contracts should be treated on a "cash-flow basis" for the purposes of Part 4 of this Return. This means that the institution should report the amounts of periodic payables and receivables arising from a swap contract under the appropriate time bands of the relevant items (whether item 3, 13, 18 or 29). The payables and receivables should be calculated by reference to the prices or rates that are determined according to the contractual arrangements. If such prices or rates are not yet due for fixing, use the current market prices or rates applicable to that contract as of the month-end reporting date. Whether the payables and receivables are reported as on- or off-balance sheet items should be determined according to the applicable accounting standards.

[72] A swap contract includes, for example, an interest rate swap, a currency swap and any other similar swap contract, but not a securities swap which should be treated as a securities financing transaction.

7. For example, under a HKD-USD currency swap contract that has a remaining term to maturity of 1 year, the reporting institution is obliged to pay a fixed amount of HKD7.8 million to its customer quarterly in exchange for USD$1 million. (In other words, the amounts payable and receivable by the reporting institution periodically are exchanged on gross basis in this example). Assume that the exchange rate fixing date in respect of that contract is not yet due, whilst the HKD-USD market exchange rate on the month-end reporting date was 7.76. If the institution needs to recognis~~z~~e the replacement cost of the swap contract ("X") as an on-balance sheet item pursuant to the applicable accounting standards, the institution should report the periodic receivables and payables under this contract respectively in items 3 and 18 of Part 4 of this Return as demonstrated in the Table under paragraph 8 of this Annex.[73]

8. In addition to reporting the periodic payables and receivables under the appropriate time bands in items 3 and 18 respectively, the reporting institution should report the replacement cost of the swap contract ("X") under the "Total amount" column of item 3 if the institution is bearing a mark-to-market loss under the contract (as in this example), or the "Total amount" column of item 18 if the institution is bearing a mark-to-market gain under the contract. (To avoid doubt, the reporting of "X" is not intended to reconcile the amounts of periodic cash flows arising from a swap contract. This is intended to serve as an additional reference to enable supervisory assessment on the potential impact of the swap contract on the institution's earnings and capital.)

(HK$'000)

A. Contractual maturity profile		Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items		
			> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year
3	Amount payable arising from derivative contracts	X	7,800	7,800	15,600
18	Amount receivable arising from derivative contracts		7,760	7,760	15,520

9. If the periodic payables and receivables arising from a swap contract are contractually allowed to be settled on a net basis, the reporting institution should report the net amount payable or receivable under the appropriate time band(s) according to the periodic settlement date(s). Following the example presented in paragraphs 7 and 8 of this Annex, the net amounts payable by the reporting institution periodically should be reported as follows:

[73] Otherwise, if the reporting institution does not recognise the replacement cost of a swap contract as an on-balance sheet item (which may be possible pursuant to the applicable accounting standards adopted by some overseas incorporated AIs), the institution should report the periodic payables and receivables arising from that contract in items 13 and 29 of Part 4 respectively, whilst the replacement cost of that contract should be reported under the

(HK$'000)

A.	**Contractual maturity profile**	Total amount on reporting date	Contractual maturity of cash flows arising from the relevant items		
			> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year
3	Amount payable arising from derivative contracts	X	40	40	80
18	Amount receivable arising from derivative contracts		0	0	0

"Total amount" column of item 13 if the institution is bearing a mark-to-market loss under the contract, or under the "Total amount" column of item 29 if the institution is bearing a mark-to-market gain under the contract.

Securities pledged as collateral under derivative contracts

10. Securities flows arising from derivative contracts should be reported specifically in Table B2 under Section B of Part 4 of this Return.

- Any securities pledged to the reporting institution as collateral under derivative contracts should be reported (at fair value if marketable) in item 38. The reporting methodology for this item is similar to that for item 34.

- If the reporting institution has pledged its own securities to customers as collateral under derivative contracts (where these securities are still on the institution's balance sheet (in item 22(b)(i)), it should report these securities (at fair value if marketable) specifically in item 39. The reporting methodology for this item is similar to that for item 36.