



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/187C
S4/7C

30 March 2021

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Alternative Reference Rates: Interim Reporting Guidelines

The HKMA has received some enquiries about the reporting of alternative reference rate (ARR) positions in relation to returns MA(BS)12A “Interest Rate Risk in the Banking Book”, MA(BS)12B “Interest Rate Risk in the Banking Book (Supplementary Information)” and MA(BS)12 “Interest Rate Risk Exposures”.

Given the evolution of new ARR conventions resulting from the progressing interest rate benchmark reform, the HKMA will soon look into comprehensively reflecting these by updating the Supervisory Policy Manual (SPM) module IR-1 “Interest Rate Risk in the Banking Book” (IRRBB) and the completion instructions for the relevant returns. To facilitate the regulatory reporting for the time being, the following interim reporting guidelines for ARRs are provided:

Interim reporting guidelines for MA(BS)12A and MA(BS)12B

- For all floating rate interest rate-sensitive positions referencing to ARRs which are overnight rates in nature, the business day immediately following the reporting date can be considered the “earliest interest repricing date” and the positions can be slotted into the corresponding time bands;

- AIs may continue to use the discounting factors derived based on the pre-existing methodology (i.e. the methodology adopted on or before 31 December 2020) for the calculations of impact on economic value of equity (EVE);
- Accrued ARR interest should be reported according to item 13 under the Frequently Asked Questions for IRRBB reporting requirements;
- The ARR component of the coupon cash flows recorded by the reporting date should be slotted into the appropriate time band according to the next repricing date, i.e. the business day immediately following the reporting date;
- If there are insufficient implied interest rate volatility data for valuing ARR options in the market, alternative volatility estimates may be used instead (e.g. based on historical volatilities with potential adjustments to reflect recent market conditions if needed);
- AIs may continue to apply the pre-existing methodologies for determining net interest income (NII) impacts and weighted average yields that were compliant with the SPM module IR-1 and the completion instructions for MA(BS)12A/MA(BS)12B before 31 December 2020;
- Deviations from these interim reporting guidelines will be allowed for IRRBB reporting in the interim period if the alternative reporting can be demonstrated to be more sophisticated or more prudent.

Interim reporting guidelines for MA(BS)12 (for IRRBB-exempted AIs)

- For all variable rate interest-bearing positions referencing to ARRs which are overnight rates in nature, the business day immediately following the reporting date can be considered the “earliest interest repricing date” and the positions can be slotted into the corresponding time bands;
- Deviations from the interim guideline above will be allowed for MA(BS)12 reporting in the interim period if the alternative reporting can be demonstrated to be more sophisticated or more prudent.

These interim reporting guidelines are expected to be in effect until the SPM module IR-1 and the completion instructions for the relevant returns are updated. Should you have any questions on these interim reporting guidelines, please feel free to contact Mr Jule Chong (2878 1611, jckchong@hkma.gov.hk).

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Ms Eureka Cheung)