This module, which should be read in conjunction with the Contents and with the Introduction, contains a list of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

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1. Abbreviations

AI	Authorized Institution[1]
FATF	Financial Action Task Force on Money Laundering[2]
FSF	The Financial Stability Forum[2]
GN	Guidance note[2]
HKMA	Hong Kong Monetary Authority[2]
HKSARG	The Government of the Hong Kong Special Administrative Region
MA	Monetary Authority[2]
MPF	Mandatory Provident Fund
MPFA	Mandatory Provident Fund Schemes Authority
Para.	Paragraph
SG	Statutory guideline[2]
TN	Technical note[2]
§	Section (of Ordinance)

[1] As defined in the Banking Ordinance

[2] See Common terms below.

2. Common terms

Basel Committee	The Basel Committee on Banking Supervision
Board of Directors	In the case of AIs incorporated outside Hong Kong, this refers to their head office.
Capital base	For locally incorporated AIs, the term is as defined in the Third Schedule to the Banking Ordinance. For AIs incorporated in overseas countries which have adopted the Basel Committee's capital framework, this refers to the capital base of their head offices. For other overseas incorporated AIs, this means the capital and reserves, excluding provisions, of their head offices.
Classified loans	Loans in the Substandard, Doubtful and Loss categories as defined under the HKMA's loan classification framework
Clean	Without collateral, i.e. unsecured
Collateral	Refers to any asset, normally tangible in nature, such as cash, precious metals, properties and shares etc., pledged by a borrower to an AI as security for an obligation of the borrower towards the AI. The AI is given the right to dispose of the asset in the event that the borrower defaults on his obligations.
Connected parties	As defined in §83 of the Banking Ordinance; they include, inter alia: • the AI's directors; • those of the AI's employees who are responsible for approving loan applications; • the AI's controller(s) or minority shareholder controller(s); • any firm, partnership or non-listed company in

	which the AI or its controller, minority shareholder controller or director is interested as director, partner, manager or agent; • any individual, firm, partnership or non-listed company of which any controller, minority shareholder controller or director of the AI is a guarantor; and • any relative of an individual who is a connected party of the AI as defined above.
Controller	As defined in §2 of the Banking Ordinance, it includes: • indirect controller – a person in accordance with whose directions or instructions the directors of the AI or of another company of which it is a subsidiary are accustomed to act; • minority shareholder controller – a person who either alone or with associates controls 10% or more, but not more than 50%, of the voting rights of the AI or of another company of which it is a subsidiary; and • majority shareholder controller – a person who either alone or with associates controls over 50% of the voting rights of the AI or of another company of which it is a subsidiary.
Counterparty	Any party on which an AI, directly or indirectly, has a claim.
Country risk	Refers to the possibility that sovereign borrowers of a particular country may be unable or unwilling, and other borrowers unable, to fulfil their foreign obligations for reasons (e.g. political or social upheaval, nationalisation or expropriation, government repudiation of external debts or exchange controls) beyond the usual risks which arise in relation to all lending.
Credit	Used throughout this Manual inter-changeably with

	"advance", "credit facility", "indebtedness", "lending", "loan" and other expressions signifying credit exposure, including contingent liabilities such as guarantees and off-balance sheet exposure such as foreign exchange facilities and derivatives
Credit equivalent amount	A method to quantify the credit risk of off-balance sheet instruments such as interest rate or foreign exchange derivatives by translating the value of such instruments into a credit equivalent. The credit equivalent risk of an instrument consists essentially of two elements: • current exposure - mark-to-market value of the instrument; and • potential exposure - a statistically determined potential loss arising from likely movements in the value of the instrument during its remaining life. In the absence of a sophisticated statistical tool, AIs may adopt the methodology recommended for the completion of the Return of Capital Adequacy Ratio (see the completion instructions for Form MA(BS)3).
Credit risk	The risk that a borrower or counterparty fails to meet its obligations, thus causing a loss to an AI.
Default	Failure to service a credit in accordance with agreed terms, e.g. late or incomplete payments of principal or interest, or infringement of any other material provision of the credit documentation
Exposure	All potential losses an AI may suffer if a counterparty defaults, generally including: • all claims, commitments and contingent liabilities both on and off the balance sheet of the AI; and • assets not representing a liability of the counterparty but the value of which depends

	on the latter's financial strength, e.g. equities.
Financial Action Task Force on Money Laundering	An inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering. FATF currently consists of 29 countries/territories and two international organisations: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong China, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, the Kingdom of the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States, the European Commission and Gulf Cooperation Council.
The Financial Stability Forum	Convened in April 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. By bringing together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors and committees of central bank experts, the FSF seeks to coordinate the efforts of these bodies to promote financial stability, improve the functioning of markets and reduce systemic risk.
Group of related counterparties	Parties connected in such a way that the financial strength of any of them may affect that of the others, e.g.: • companies which are subsidiary companies of the same holding company or which have the same controller; • holding company and its subsidiaries; and • counterparties linked by cross-guarantees or whose liabilities are guaranteed by the same

	guarantor.
Guidance notes	Non-statutory guidelines issued to AIs as guidance notes – these are best practice guides setting out the HKMA's recommendations to AIs in respect of the standards they should aim to achieve, subject to the AIs' size, complexity and scope of activities. Failure to adhere to such guidelines may call into question whether the AI concerned continues to satisfy the minimum criteria for authorization under the Banking Ordinance.
He/his	Also includes the feminine and neuter genders.
Hong Kong Monetary Authority	The organisation that carries out the functions of the Monetary Authority.
Internal risk rating system	A process or methodology that assigns a rating to a credit based on an AI's assessment of the default risk inherent in the credit concerned. The rating assigned to a credit is referred to as the "internal credit rating" or "internal risk rating".
Large exposure	An exposure to a counterparty or a group of related counterparties which is greater than or equal to 10% of an AI's capital base.
Monetary Authority	The legal person who has the right to exercise the relevant powers under the Banking Ordinance.
Non-performing loan	Defined as a loan on which interest is being placed in suspense or interest accrual has ceased.
Risk-adjusted return (credit facility)	The expected return on a credit facility, calculated as the gross revenue net of the funding cost and adjusted for the inherent credit risk - an AI should have an expected default probability for credit facilities grouped under each category of internal risk ratings. This default probability, which is based on historical experience, should be translated into a percentage, usually in terms of basis points, by which the net return on a loan is notionally reduced

	to produce a risk-adjusted rate of return. In the absence of a sophisticated internal risk rating system or requisite data on past losses, an alternative is to compute the expected risk-adjusted return as the net income (without adjustment for potential loss) expressed as a percentage of the credit equivalent of the asset and/or contingency arising from the facility (see the completion instructions for Form MA(BS)3 for details of how credit equivalents are computed).
Risk concentration	An exposure or a group of exposures with common characteristics, e.g. borrowers operating in similar or related industries, countries or loans collateralised on similar assets such as residential properties, such that any adverse changes to the common characteristics may give rise to significant losses for an AI.
Statutory guidelines	Statutory guidelines issued by the MA under the Banking Ordinance, e.g. §§7(3), 16(10) and 118C(7) – these set out the minimum standards with which AIs are expected to comply to satisfy the requirements of the Banking Ordinance. In addition to minimum standards, statutory guidelines may also embody best practices or advisory standards. The HKMA will use different wording to differentiate these from minimum standards. For example, in describing best practices or advisory standards, the HKMA will normally use such phrases as AIs "should preferable", "should ideally", "may", "are encouraged to" or "are recommended to" adopt such practices or standards whereas minimum standards will typically be described in more definitive terms as standards which AIs "should", "are expected to" or "must" follow. Statutory guidelines do not themselves have the force of law. Failure to adhere to any of these guidelines may call into question whether the AI concerned continues to satisfy the minimum criteria for

	authorization under the Banking Ordinance. In addition, it may constitute a contravention of the relevant provision or requirement of the Banking Ordinance.
Subsidiary	As defined in §2 of the Companies Ordinance, a company is a subsidiary of another company if: • its Board of Directors is controlled by that other company; • more than half of its issued share capital is held, or more than half of its voting power is controlled, by that other company, excluding any shares held or power exercisable by that other company in a fiduciary capacity, for securing any issue of debentures, or as a security in respect of a lending transaction which comes up from the ordinary business of that other company, but including any shares held or power exercisable by any person as a nominee for, by a subsidiary, or by a nominee for a subsidiary of, that other company (where such subsidiary or that other company is not concerned in a fiduciary capacity); or • it is a subsidiary of a company which is that other company's subsidiary.
Technical notes	Non-statutory guidelines issued to AIs as technical notes – these are usually technical in nature and are for the purpose of clarifying the HKMA's interpretation of regulatory and reporting issues. Failure to adhere to such guidelines may call into question whether the AI concerned continues to satisfy the minimum criteria for authorization under the Banking Ordinance.
Tier 1 country	As defined in the Third Schedule to the Banking Ordinance, this means a country which: • is a member of the Organisation for Economic

	Cooperation and Development; or • has concluded a special lending arrangement with the International Monetary Fund associated with the Fund's General Arrangements to Borrow. It also includes Hong Kong but excludes any country which has rescheduled its external debt, whether to central government or non-central government creditors, within the previous five years.
Transfer risk	The risk that local currency cannot be converted into foreign currency to repay loans or other credit exposures to foreign lenders.

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