

In conducting the day-to-day supervision of authorised institutions, the Monetary Authority often receives questions on regulatory issues. This column publishes the supervisory response to questions which cover matters of general interest.

Q. Sections 60(3) and 60(7) of the Banking Ordinance require authorised institutions to exhibit their annual audited accounts, etc. in their main office and branches. Does the display of a publication such as the annual report, which contains the requisite documents referred to in the relevant sections, comply with the requirements of exhibition?

A. The view of the HKMA is that sections 60(3) and 60(7) do not specify the manner in which the documents must be exhibited. Therefore, provided that accurate copies of the requisite documents are displayed, and that they are displayed in a conspicuous place in the bank's principal place of business in Hong Kong and in each of its local branches, exhibition in the form of publications which contain the relevant documents is legally permissible.

Q. When will the legal framework for the regulation of the issue of multi-purpose stored value cards and the approval of money brokers come into operation?

A. Provisions of the Banking (Amendment) Ordinance 1997 which set out the legal framework for the issue of multi-purpose stored value cards and the approval of money brokers came into operation on 15 May 1997. Non-bank issuers of existing multi-purpose card schemes or money brokers are given three months to apply for authorisation or approval from the Monetary Authority. Concurrent with the commencement of these provisions, the HKMA has issued two new chapters of the Guide to Applicants to provide guidance for applicants on how the Monetary Authority will exercise his powers under these provisions.

Q. It was announced in the November 1996 issue that the HKMA was conducting a review on the reporting of undrawn commitments as qualifying liabilities in the liquidity return. What is the outcome of this review?

A. The HKMA has considered the situation and discussed with a number of institutions. It has been concluded that a clarification of the existing requirement is necessary. For the calculation of the liquidity ratio, it remains the HKMA's view that qualifying liabilities should include the reporting institution's irrevocable commitments to provide funds within 1 month. For this purpose, a credit facility granted to a customer is regarded as an irrevocable commitment on the part of the institution upon the acceptance in writing by the customer of the facility. Such undrawn commitments may take one of the following two forms:—

- (a) where there is a known date of drawdown within one month, this must be included as a qualifying liability; or
- (b) where there is no known date of drawdown but the drawdown carries a notice period of within 1 month (including where the drawdown is on demand i.e. requiring no notice period), this should

be included as a qualifying liability except when the conditions attached to the drawdown cannot in practice be met within 1 month. These conditions may include the execution of security documentation and the completion of a certain phase of a project etc.

The HKMA further clarifies that institutions should not rely on any “material adverse change” clause, “availability of funds” clause or any other similar protective device incorporated in the facility documentation to establish that such a commitment to provide funds is revocable.

As stated in the existing policy, the following items are specifically excluded from the reporting of qualifying liabilities notwithstanding the above:—

- (a) commitments relating to overdraft and credit card facilities, and
- (b) contingent liabilities arising from trade-related contingencies and financial derivative contracts, i.e. interest rate, foreign exchange, equity, precious metal and commodity contracts.

As this is largely a clarification of the existing reporting requirement and many institutions are already in compliance, the HKMA expects all institutions to report on this basis with immediate effect. Institutions currently not complying and which need to adapt their reporting systems may nevertheless be given a grace period to put in place the necessary changes. These cases would be discussed on a bilateral basis.

A circular letter on this subject has been issued to all authorised institutions on 29 April 1997.