

Completion Instructions

Return of Foreign Currency Position Form MA(BS)6

Introduction

This return collects information on authorized institutions' foreign currency positions (including options) as at the last calendar day of each month and the exception reports during the month. The information will form the basis of the supervision of institutions' foreign exchange risk.

Section A : General Instructions

1. This form consists of three parts. Parts I and III are for completion by all institutions except that overseas incorporated institutions need not complete columns 7 to 10 of Part I. Part II is for completion only by institutions which have option transactions giving rise to foreign currency exposures. It should be submitted not later than 21 days after the end of each month. If the submission deadline falls on a public holiday, it will be deferred to the next working day.
2. In compiling this return, all foreign currency amounts should be translated into HK\$ equivalents by using the middle market T/T rates ruling at the close of business on the reporting date.
3. Authorized institutions should follow the Hong Kong Monetary Authority ("HKMA") guidelines on their overnight open positions in a single currency and in all currencies taken together (i.e. the aggregate overnight open position). For details, please refer to the HKMA's supervisory policy manual ("SPM") TA-2 "Foreign Exchange Risk Management" or other applicable HKMA's guidelines.
4. The aggregate overnight open position means:
 - (a) in the case of an institution which has not written any option transactions giving rise to foreign currency exposures - the amount of "Adjusted sum of net long/short positions" reported in column 5 of Part I (for institutions incorporated outside Hong Kong) or column 9 of Part I (for institutions incorporated in Hong Kong); and
 - (b) in the case of an institution involved in the writing of option transactions giving rise to foreign currency exposures - the amount of "Adjusted sum of net long/short positions" reported in column 13 of Part II.

5. Institutions should apply consistent policies in compiling the returns. Any change in policies (i.e. different to those used in previous returns) should be notified to the Monetary Authority in a covering note accompanying the return.
6. For the purposes of this return, gold is regarded as one of the foreign currencies, but other precious metals and commodities are not.
7. Specific provisions and general provisions mentioned in this completion instruction should follow the definitions of specific provisions and collective provisions defined in section 2(1) of the Banking (Capital) Rules respectively. The categorisation of accounting provisions into specific provisions or general provisions follows the treatment adopted in MA(BS)3.

Section B : Specific Instructions

Part I - Foreign Currency Position (excluding options)

8. This part reports the open positions of the reporting institution in each individual currency as at the end of the reporting month. Foreign currency exposures arising from option transactions are excluded from this Part.
9. Columns 1 to 6 should be completed by all institutions, whether incorporated in Hong Kong or not.
10. Columns 7 to 10 should be completed by locally incorporated institutions only. For institutions which have no overseas branches and subsidiaries, column 9 will be the same as column 5.
11. **Spot transactions** (Columns 1 and 2)
 - Columns 1 and 2 record all foreign currency assets and liabilities except structural positions and unmatured spot contracts (All unmatured spot and forward securities transactions and all matured but unsettled spot or forward transactions should however be reported here. An exception is given to matured but unsettled contracts under FX margin trading. These contracts are regarded as forward contracts.). Capital and reserves, including balances in the profit and loss account and general provisions, should be reported as liabilities in the base currency of the reporting institution or in the currency in which the capital is denominated. Other provisions should be reported in the currency of the underlying assets.
 - While fixed assets should be reported net of depreciation, all other assets and liabilities should be reported on gross basis. For example, the gross amount of a foreign currency loan, instead of the net amount after provisions set aside for it, should be reported in column 1.

12. Forward transactions (Columns 3 and 4)

- Columns 3 and 4 record unmatured spot and forward transactions. They include matured but unsettled contracts under FX margin trading. An exception is provided for securities transactions where trade date approach is adopted. Under this approach the unmatured spot and forward purchases or sales of securities are reported as 'spot transactions'.
- Show the gross figures of all unmatured spot and forward transactions, including undelivered "spot", and "forward" legs of swaps.
- Forward purchases and forward sales include all receivables and payables of principal and/or interest under any foreign currency related contracts. Such contracts should include but are not limited to the following:
 - unmatured spot and forward foreign exchange contracts
 - foreign currency futures contracts (the gross or nominal amounts of the contracts should be reported)
 - foreign currency interest rate futures contracts (the unrealised profits or losses should be reported)
 - foreign currency interest rate swap contracts (interest receivable and payable according to the best estimate at the reporting date should be reported)
 - forward rate agreements (the best estimated net settlements should be reported)
 - where a security is sold subject to a repurchase 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 plus a commitment to repurchase), the security sold under such an agreement should not be reported in the return. The commitment to repurchase should be reported as a forward purchase of the security. Where the price for the commitment to repurchase has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.
 - where a security is purchased subject to a resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the reporting institution (and the transaction is separately accounted for as an outright purchase plus a commitment to sell back), the security purchased under such an agreement should be reported as an asset and the commitment to sell back should be reported as a forward sale of the security. Where the price for the commitment to sell back has not

been determined, the fair value (i.e. current market price) as of the reporting date should be used.

13. Net long (short) position (Columns 5, 7, 8 and 9)

- Enter in the relevant boxes in columns 5 and 9 the net long (short) positions in individual currencies.
- Enter in columns 7 and 8 the net long (short) positions in individual currencies of the reporting institution's overseas branches and subsidiaries. Do not offset intra group transactions.
- The Hong Kong dollars positions in columns 5 and 9 are balancing figures to bring the total of all net long positions the same as the total of all net short positions. In other words, they should equal and opposite to the net open positions of all other currencies in the boxes above them.

14. Sum of net long/short positions (Columns 5 and 9)

- Enter in the relevant boxes in columns 5 and 9 the sum of either the net long or the net short positions in individual currencies, including the Hong Kong dollars.
- The sum of the net short positions should be the same as the sum of the net long positions.
- Do not put any positive or negative sign to amounts in these boxes.

15. USD/HKD Position (Columns 5 and 9)

- Enter in the relevant boxes in columns 5 and 9 the positions in USD against HKD, which should be computed as follows:
 - If the net open positions in USD and HKD as reported in the same column are of the same sign (e.g. both are short), report a 'zero' in this box.
 - If the net open positions in USD and HKD as reported in the same column are of the opposite sign (e.g. short in USD and long in HKD or vice versa), report the smaller of the two positions in this box, ignoring the sign.
- Do not put any positive or negative sign to amounts in these boxes.

16. Adjusted sum of net long/short positions (Columns 5 and 9)

- The adjusted sum of net long/short positions is calculated as the "sum of net long/short positions" less the "USD/HKD position".
- For institutions which do not write any option transactions that give rise to foreign currency exposures, this net open position should be within the guidelines agreed with the HKMA.

17. Structural assets (liabilities) (Columns 6 and 10)

- Please read carefully section 2.1 of the HKMA's SPM TA-2 “Foreign Exchange Risk Management”.
- Report in column 6 any structural position on the institution's books in Hong Kong. Report in column 10 the institution's aggregate structural position i.e. the position reported in column 6 and those structural positions of the reporting institution's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading.
- AIs’ definitions of their structural positions and management of these positions are subject to review by the HKMA (section 2.1.4 of SPM TA-2). Examples of structural assets or liabilities include:
 - investments in fixed assets and premises, net of depreciation charges;
 - capital and statutory reserves of overseas branches;
 - investments in overseas subsidiaries and related companies;
 - loan capital, e.g. perpetual subordinated debts.

Part II - Foreign Currency Position (Including Options)

18. Part II reports the open foreign currency positions of an institution (including positions of its overseas branches and subsidiaries in the case of a locally incorporated institution) arising from option transactions.

Section A - columns 11 to 13

19. Net long (short) position (column 11)

Column 11 is the same as column 5 of Part I (for overseas incorporated institutions) or column 9 of Part I (for locally incorporated institutions).

20. Adjusted options position (column 12)

Enter in column 12 the adjusted value of options held and written (including options involving a HK\$ leg) using the delta equivalent approach. Any cover taken on option positions in the cash market should be included in Part I of this return.

An institution purchasing options to a limited extent for the purposes of hedging may report only those option contracts which are in-the-money. Instead of reporting their delta equivalent values, it may report the notional value of the option contracts.

21. Net long (short) position including options (column 13)

- Column 13 is the sum of columns 11 and 12.
- The "HKD position", "Sum of net long/short positions", "USD/HKD position" and "Adjusted sum of net long/short positions" should be computed in the same way as those described for columns 5 and 9 of Part I.
- The "adjusted sum of net long/short positions" gives the institution's overall net open position, including those arising from options, which should be kept within the guidelines agreed with the HKMA.

Section B - columns 14 to 17

22. The information sought under columns 14 to 17 is required for statistical purposes only and is not intended to be used to assess an institution's foreign currency positions.

23. Options written - Potential purchases (column 14) and Potential sales (column 15)

Enter in column 14 (column 15) the gross amount of each currency, including HK\$, that the reporting institution may be required to purchase or sell under options written. The gross amount includes back-to-back options held and dealings with branches or Head Office.

24. Options held - Potential purchases (column 16) and Potential sales (column 17)

Enter in column 16 (column 17) the gross amount of each currency, including HK\$, that the reporting institution may purchase or sell through the exercise of option transactions giving rise to foreign currency exposures held. The gross amount includes back-to-back options held and dealings with branches or Head Office.

Part III - Exception Reports

25. This Part should be reported as "nil" if the institution has operated within the guidelines (both on individual currency positions and on the aggregate overnight open position) agreed with the HKMA throughout the reporting month.

26. Any breach of the guidelines should be reported in this Part in a chronological order starting from the first blank column on the left hand side of the table. Only the positions that exceed limits need to be reported.