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## BANKING (DISCLOSURE) RULES

(Made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) as amended by the Banking (Amendment) Ordinance 2005 (19 of 2005) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The DTC Association)

### PART 1

#### PRELIMINARY

#### 1. Commencement

These Rules shall come into operation on the day appointed for the commencement of section 2 of the Banking (Amendment) Ordinance 2005 (19 of 2005).

#### 2. Interpretation

(1) In these Rules, unless the context otherwise requires—

“active market” (活躍市場), in relation to any financial assets, means a market at which the quoted price of the assets—

(a) is readily obtainable and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and

(b) reflects actual and regularly occurring transactions involving the assets, which take place on an arm's length basis;

“annual reporting period” (周年報告期), in relation to an authorized institution, means the institution's last financial year;

“associate” (聯營者), in relation to an authorized institution, means a person (including a company, a partnership and any other unincorporated body but excluding an individual)—

(a) over which the institution has significant influence; and

(b) which is neither a subsidiary nor a joint venture in which the institution has an interest;

“available-for-sale” (可供出售) has the meaning assigned to it by section 35 of the Capital Rules;

“capital requirements” (資本規定), in relation to—

- (a) the measure of an authorized institution's non-securitization exposures to credit risk calculated in accordance with Part 4, 5 or 6, as the case requires, of the Capital Rules; and
- (b) the measure of an authorized institution's securitization exposures to credit risk calculated in accordance with Part 7 of the Capital Rules,

means the amount of capital required to be held by the institution for that risk based on the risk-weighted amount for that risk multiplied by 8%;

“Capital Rules” (《資本規則》) means the Banking (Capital) Rules (L.N. 228 of 2006);

“cash and balances with banks” (現金及銀行結餘) means—

- (a) cash in the till;
- (b) demand deposits with banks; and
- (c) deposits with banks which have a residual contractual maturity of not more than one month;

“certificate of deposit” (存款證) means any certificate of deposit (including a certificate of deposit held for trading purposes) regardless of maturity;

“consolidation requirement” (綜合規定) has the meaning assigned to it by section 35 of the Capital Rules;

“debt securities” (債務證券) has the meaning assigned to it by section 35 of the Capital Rules;

“delta-weighted position” (得爾塔加權持倉) has the meaning assigned to it by section 281 of the Capital Rules;

“deposits and balances from banks” (尚欠銀行存款及結餘), in relation to an authorized institution—

- (a) subject to paragraph (b), means all amounts which arise out of banking transactions owed by the institution to other banks;
- (b) does not include such amounts taking the form of debt securities or certificates of deposit issued by the institution;

“disclosure statement” (披露報表), in relation to an authorized institution—

- (a) means, except in Part 8, a disclosure statement prepared by the institution pursuant to section 6(1);
- (b) means, in Part 8, a disclosure statement prepared by the institution pursuant to section 88(1);

“effective interest method” (實際利率法), in relation to a financial asset (including a group of financial assets) or financial liability (including a group of financial liabilities), means a method of—

- (a) calculating the amortized cost of the asset or liability, as the case may be; and
- (b) allocating the interest income and interest expense of the asset or the interest income and interest expense of the liability, as the case may be,

over the expected life of the asset or liability, as the case may be;



“effective interest rate” (實際利率), in relation to a financial asset or financial liability, means an interest rate which is calculated by—

(a) exactly discounting—

(i) the estimated future cash receipts and cash payments through the expected life (or, where appropriate, a shorter period) of the financial asset; or

(ii) the estimated future cash receipts and cash payments through the expected life (or, where appropriate, a shorter period) of the financial liability,

as the case may be, to the net carrying amount of the asset or liability, as the case may be; and

(b) including all amounts received and paid in respect of the asset or received and paid in respect of the liability, as the case may be, which are an integral part of the interest rate (including transaction costs and all other premiums or discounts);

“exchange rate-related derivative contract” (匯率關聯衍生工具合約) has the meaning assigned to it by section 281 of the Capital Rules;

“financial assets or financial liabilities measured at fair value through profit or loss” (以公平價值計量經損益表入帳的金融資產或金融負債), in relation to an authorized institution, means financial assets or financial liabilities—

(a) which are classified by the institution as held for trading; or

(b) which are designated by the institution upon initial recognition as at fair value through profit or loss;

“financial concerns” (金融企業) means—

(a) investment companies including—

(i) companies in the business of investment in commodity futures, foreign currencies, gold bullion, shares, funds and securities;

(ii) unit trusts;

(iii) retirement funds; and

(iv) investment holding companies;

(b) insurance companies;

(c) futures brokers; and

(d) finance companies and other persons engaged in the financial sector which are not authorized institutions or banks, including companies in the business of leasing, factoring, bills discounting, hire purchase, mortgage finance, commercial and industrial finance, gold bullion brokers, money lenders, pawnshops and credit card companies;

“foreign currency” (非港元貨幣) means any currency other than the Hong Kong dollar;

“geographical segment” (地域分部), in relation to an authorized institution, means a business unit of the institution—

- (a) which is engaged in providing products or services within a particular economic environment;
- (b) which is subject to risks and returns which are different from those of business units of the institution operating in other economic environments; and
- (c) which is distinct from other business units of the institution due to factors relating to—
  - (i) similarity of economic and political conditions;
  - (ii) relationships between operations in different geographical areas;
  - (iii) proximity of operations;
  - (iv) special risks associated with operations in a particular area;
  - (v) exchange control regulations;
  - (vi) underlying currency risks; or
  - (vii) any combination of the matters referred to in subparagraphs (i), (ii), (iii), (iv), (v) and (vi);

“held-to-maturity investments” (持有至到期投資), in relation to an authorized institution—

- (a) subject to paragraph (b), means financial assets of the institution (other than derivative contracts) with fixed or determinable payments and fixed maturity which the institution has the positive intention and ability to hold to maturity;
- (b) does not include financial assets—
  - (i) which the institution designates upon initial recognition as at fair value through profit or loss;
  - (ii) which are available-for-sale; or
  - (iii) which fall within the definition of “loans and receivables” in this section;

“Hong Kong Internet website” (香港互聯網網站), in relation to an authorized institution, means a website (or section of a website) of the institution which is specifically intended to be accessible by the general public in Hong Kong;

“interest rate derivative contract” (利率衍生工具合約) has the meaning assigned to it by section 281 of the Capital Rules;

“interim reporting period” (中期報告期), in relation to an authorized institution, means the 6 months period immediately after the close of the institution’s last financial year;

“investment property” (投資物業), in relation to an authorized institution, means any immovable property—

- (a) which is owned by the institution, or held by the institution as a lessee under a finance lease, to earn rentals or for capital appreciation, or both; and
- (b) which is not held by the institution—

(i) for use in the production or supply of goods or services or for administrative purposes; or

(ii) for sale in the ordinary course of business;

“issued debt securities” (已發行債務證券) means all negotiable securities other than loan capital, stocks, shares, import or export trade bills, or certificates of deposit;

“loan capital” (借貸資本) means subordinated liabilities (including loans, debentures and floating rate notes);

“loans and advances to banks” (對銀行的貸款及放款) means placements with banks which have a residual contractual maturity of more than one year;

“loans and receivables” (貸款及應收款項), in relation to an authorized institution—

(a) subject to paragraph (b), means financial assets of the institution (other than derivative contracts) with fixed or determinable payments which are not quoted in an active market;

(b) does not include—

(i) financial assets which the institution—

(A) intends to sell immediately or in the near term; or

(B) designates upon initial recognition as at fair value through profit or loss;

(ii) financial assets which the institution designates upon initial recognition as available for sale; or

(iii) financial assets purchased by the institution, for which the institution may not recover substantially all of its initial investment for reasons not related to credit deterioration;

“premises and equipment expense” (房產及設備開支), in relation to an authorized institution’s operating expenses, includes rents and rates, insurance of premises and equipment, lighting, heating, maintenance costs and electronic data processing expenses;

“publish” (發布) includes distribute, make available and disseminate;

“reporting date” (報告日期), in relation to a disclosure required under these Rules, means the last day of the reporting period to which the disclosure relates;

“reporting period” (報告期) means—

(a) an annual reporting period; or

(b) an interim reporting period;

“repossessed asset” (經收回資產), in relation to an authorized institution, means an asset in respect of which the institution has acquired control (whether through court proceedings or otherwise) for the discharge in whole or in part of the obligations of an obligor;

“surplus provisions” (準備金餘額), in relation to an authorized institution which uses the IRB approach to calculate its credit risk for non-securitization exposures, means that part of the excess of the institution’s total eligible provisions over the institution’s total EL amount which is included in the institution’s supplementary capital in the determination of the institution’s capital base;

“swap deposit arrangement” (掉期存款安排), in relation to an authorized institution, means an arrangement entered into by the institution with an obligor whereby—

- (a) the institution sells a specified currency at spot rate to the obligor against another currency; and
- (b) at the same time, the obligor deposits the specified currency so purchased with the institution and enters into a forward exchange rate contract with the institution to sell the specified currency so purchased back to the institution against another currency at a specified exchange rate on a future date;

“trade bills” (貿易匯票), in relation to an authorized institution, means all bills of exchange purchased by the institution in relation to trade transactions.

(2) Section 2 of the Capital Rules applies to the interpretation of these Rules as that section applies to the interpretation of the Capital Rules.

(3) A disclosure required under these Rules is—

- (a) a disclosure to the general public; and
- (b) unless the context otherwise requires, a disclosure as at the reporting date.

### 3. Application

(1) Parts 2 and 4 apply to an authorized institution incorporated in Hong Kong except such an institution which is exempted under subsection (7).

(2) Part 3 applies to an authorized institution incorporated in Hong Kong except such an institution which is exempted under subsection (8).

(3) Part 5 applies to an authorized institution—

- (a) to which Part 4 applies; and
- (b) which uses the STC approach to calculate its credit risk for—
  - (i) non-securitization exposures; or
  - (ii) non-securitization exposures the subject of an exemption under section 12(2)(a) of the Capital Rules.

(4) Part 6 applies to an authorized institution—

- (a) to which Part 4 applies; and
- (b) which uses the BSC approach to calculate its credit risk for non-securitization exposures.

- (5) Part 7 applies to an authorized institution—
- (a) to which Part 4 applies; and
  - (b) which uses the IRB approach to calculate its credit risk for non-securitization exposures.
- (6) Part 8 applies to an authorized institution incorporated outside Hong Kong except such an institution which is exempted under subsection (9).
- (7) For the purposes of subsection (1), the Monetary Authority may, by notice in writing given to an authorized institution incorporated in Hong Kong, exempt the institution from the application of Parts 2 and 4 if—
- (a) the institution is a deposit-taking company or restricted licence bank; and
  - (b) the institution demonstrates to the satisfaction of the Monetary Authority that it meets the following criteria—
    - (i) it has total assets less provisions of less than \$1 billion (or the equivalent amount in any foreign currency); and
    - (ii) it has total deposits from customers of less than \$300 million (or the equivalent amount in any foreign currency).
- (8) For the purposes of subsection (2), the Monetary Authority may, by notice in writing given to an authorized institution incorporated in Hong Kong, exempt the institution from the application of Part 3 if—
- (a) the institution is exempted from the application of Parts 2 and 4 under subsection (7); or
  - (b) the institution—
    - (i) is not listed on The Stock Exchange of Hong Kong Limited; and
    - (ii) is a wholly owned subsidiary of an authorized institution incorporated in Hong Kong.
- (9) For the purposes of subsection (6), the Monetary Authority may, by notice in writing given to an authorized institution incorporated outside Hong Kong, exempt the institution from the application of Part 8 if the institution demonstrates to the satisfaction of the Monetary Authority that it meets the following criteria—
- (a) its local branches, together with its principal place of business in Hong Kong, have in aggregate total assets less provisions of less than \$10 billion (or the equivalent amount in any foreign currency); and
  - (b) its local branches, together with its principal place of business in Hong Kong, have in aggregate total deposits from customers of less than \$2 billion (or the equivalent amount in any foreign currency).



(10) For the purposes of determining whether or not an authorized institution meets the criteria referred to in subsection (7)(b) or (9), the Monetary Authority shall make reference to the relevant average of the relevant figures over the relevant period of the institution.

(11) Where the Monetary Authority has determined that an authorized institution is not exempted under subsection (7) because the institution does not meet the criteria referred to in subsection (7)(b), the institution shall not subsequently be exempted under subsection (7) unless—

- (a) the Monetary Authority makes a subsequent determination that the institution is exempted under subsection (7); and
- (b) the institution submits to the Monetary Authority a business plan, within a period reasonable in all the circumstances of the case, which—
  - (i) demonstrates to the satisfaction of the Monetary Authority that, if the plan were implemented by the institution, it would be unlikely that the institution would cease to meet the criteria referred to in subsection (7)(b) during the period referred to in subparagraph (ii); and
  - (ii) covers such an appropriate period in the future that the Monetary Authority is satisfied that it would be unlikely that the institution would cease to meet the criteria referred to in subsection (7)(b) in the foreseeable future.

(12) Where the Monetary Authority is satisfied that an authorized institution which is exempted under subsection (7) ceases to fall within the description of subsection (7)(a) or ceases to meet the criteria referred to in subsection (7)(b), the Monetary Authority may, by notice in writing given to the institution, inform the institution that it ceases to be so exempted from the date specified in the notice.

(13) Where the Monetary Authority is satisfied that an authorized institution which is exempted under subsection (8) ceases to fall within the description of subsection (8)(a) or (b), the Monetary Authority may, by notice in writing given to the institution, inform the institution that it ceases to be so exempted from the date specified in the notice.

(14) Where the Monetary Authority is satisfied that an authorized institution which is exempted under subsection (9) ceases to meet the criteria referred to in that subsection, the Monetary Authority may, by notice in writing given to the institution, inform the institution that it ceases to be so exempted from the date specified in the notice.

(15) These Rules do not apply to or in relation to an authorized institution except on and after the first day of the institution's first financial year commencing after 31 December 2006.

(16) For the avoidance of doubt, it is hereby declared that subsection (15) shall not be construed to disapply, in respect of a reporting period of an authorized institution to which these Rules do not apply pursuant to the operation of that subsection, any of the provisions of the Ordinance (including any guidelines made under the Ordinance)—

- (a) relating to disclosures by an authorized institution; and
- (b) as in force immediately before the commencement of that subsection.

(17) In this section—

“relevant average” (有關平均數), in relation to the relevant figures for an authorized institution, means the arithmetic mean of the relevant figures as at the end of each calendar month for the last relevant period of the institution;

“relevant figures” (有關數字), in relation to an authorized institution, means the figures as at the end of each calendar month relating to the institution’s total assets less provisions and total deposits from customers, as set out in the return relating to assets and liabilities submitted by the institution to the Monetary Authority for each calendar month pursuant to section 63 of the Ordinance;

“relevant period” (有關期間), in relation to an authorized institution, means each period of 12 calendar months ending on and including the fifth calendar month preceding the close of the institution’s financial year.

## PART 2

### GENERAL REQUIREMENTS FOR AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG

#### **4. References to authorized institution in Part 2**

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(1).

#### **5. Disclosure policy**

An authorized institution shall have in place, not later than 6 months after the commencement of this section or after the date on which it became an authorized institution, whichever is the later, a clearly documented policy—

- (a) which sets out—

- (i) the approach used by the institution to determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs, profit and loss or capital adequacy ratio; and
  - (ii) the institution's internal controls over its process for making such disclosures (including internal controls for verifying or reviewing the accuracy of the information disclosed); and
- (b) which is approved by the institution's board of directors.

## **6. Medium and location of disclosure and issue of press release**

(1) Subject to subsections (2) and (3), where an authorized institution is required under these Rules to disclose information (however described), it shall make that disclosure by—

- (a) preparing a disclosure statement, in the Chinese and English languages, which contains the information;
- (b) publishing the statement—
  - (i) not later than 4 months after the end of the reporting period to which the statement relates (except in the case of a statement which relates to Part 3);
  - (ii) not later than 3 months after the end of the reporting period to which the statement relates in the case of a statement which relates to Part 3; and
- (c) complying with the other provisions of this section applicable to or in relation to the statement.

(2) An authorized institution shall make it clear in its disclosure statement which information contained in the statement has been audited and which information contained in the statement has not been audited.

(3) An authorized institution shall ensure that when its disclosure statement is published—

- (a) the statement contains—
  - (i) all the disclosures required under these Rules to be made by the institution for the reporting period to which the statement relates; or
  - (ii) a prescribed summary; and
- (b) neither the disclosures referred to in paragraph (a)(i), nor the prescribed summary referred to in paragraph (a)(ii), nor any information published with the prescribed summary, is false or misleading in any material respect.



(4) An authorized institution shall, at the same time as it publishes its disclosure statement, issue a press release to the press in Hong Kong, in the Chinese and English languages containing the statement or consisting of the statement.

(5) An authorized institution shall lodge a copy of its disclosure statement with the Monetary Authority before it publishes the statement.

(6) The Monetary Authority shall keep each copy of a disclosure statement lodged with it pursuant to subsection (5) with the register.

(7) Subject to subsections (8) and (9), an authorized institution shall—

(a) keep one or more than one copy (referred to in this subsection as the “relevant copy”) of each of its disclosure statements—

(i) in its principal place of business in Hong Kong; and

(ii) if practicable, in each local branch of the institution; and

(b) make a relevant copy available for inspection by the general public during the business hours of the institution at the place where the relevant copy is kept.

(8) Where an authorized institution publishes a disclosure statement which contains the disclosures referred to in subsection (3)(a)(i), it shall ensure that the statement is available for inspection under subsection (7) for a period—

(a) in the case where the statement relates to an annual reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding annual reporting period; or

(b) in the case where the statement relates to an interim reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding interim reporting period.

(9) Where an authorized institution publishes a disclosure statement which contains a prescribed summary—

(a) it shall ensure that the statement is available for inspection under subsection (7) for a period—

(i) in the case where the statement relates to an annual reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding annual reporting period; or

- (ii) in the case where the statement relates to an interim reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding interim reporting period; and
- (b) it shall not change the means as stated in the prescribed summary by which the general public may readily access the relevant complete disclosures unless it amends the summary in such a manner, and at such time, that the summary at all times states the means by which the general public may readily access the relevant complete disclosures.

(10) Subsections (5) and (6) apply to an amendment referred to in subsection (9)(b) of a prescribed summary contained in an authorized institution's disclosure statement as they apply to the disclosure statement.

(11) In this section—

“prescribed summary” (訂明撮要), in relation to an authorized institution's disclosure statement, means a statement setting out the location at which and the means by which the general public may readily access all the disclosures—

- (a) which are required under these Rules to be made by the institution for the reporting period to which the disclosure statement relates; and
- (b) which are readily accessible by the general public—
  - (i) on a Hong Kong Internet website;
  - (ii) if section 7 is applicable, in the institution's annual report and accounts, in any attachment to the institution's annual report and accounts, or by any other means;
  - (iii) if section 15 is applicable, on an Internet website of the institution's parent bank; or
  - (iv) by any combination of the means referred to in subparagraphs (i), (ii) and (iii).

## 7. Interaction of other requirements

Where—

- (a) an authorized institution makes a disclosure (referred to in this section as an “external disclosure”) pursuant to a requirement (referred to in this section as an “external requirement”), whether in or outside Hong Kong, which is not a requirement under these Rules (referred to in this section as an “internal requirement”);

- (b) the external requirement is similar, in whole or in part, to an internal requirement pursuant to which the institution is required to make a disclosure (referred to in this section as an “internal disclosure”) similar to the external disclosure; and
- (c) the external disclosure is available to the general public in Hong Kong,

the institution may treat the external disclosure as complying with the internal requirement if—

- (d) the institution demonstrates to the satisfaction of the Monetary Authority that—
  - (i) the external disclosure substantially complies with the internal requirement; and
  - (ii) the institution’s disclosure statement adequately explains, or is accompanied by information which adequately explains, any material differences between the external disclosure and the internal disclosure which the institution would have made but for the operation of this section; and
- (e) the institution’s disclosure statement states the means by which the general public may readily access the external disclosure (including the information, if any, referred to in paragraph (d)(ii)).

## **8. Verification**

(1) The senior management of an authorized institution shall ensure that the information which the institution is required to disclose pursuant to these Rules is, before being so disclosed, scrutinized and subjected to an internal review to ensure that the information is not false or misleading in any material respect.

(2) The internal review referred to in subsection (1) shall be carried out by an authorized institution’s adequately qualified personnel who are independent of the institution’s staff or management responsible for preparing the information which the institution is required to disclose pursuant to these Rules.

## **9. Proprietary and confidential information**

(1) An authorized institution may, with the prior consent of the Monetary Authority, decline to disclose proprietary or confidential information the disclosure of which would otherwise be required pursuant to a requirement of these Rules (referred to in this subsection as the “relevant requirement”) if the institution—

- (a) discloses general information relating to the subject matter of the relevant requirement in its disclosure statement (whether or not pursuant to the relevant requirement); and
- (b) includes a statement in that disclosure statement stating what information it has declined to disclose pursuant to this section.

(2) In this section—

“proprietary or confidential information” (專有或機密資料), in relation to an authorized institution, means information—

- (a) which, if it became publicly available, would cause serious prejudice to the competitive position of the institution; or
- (b) in respect of which the institution has legally binding obligations to its customers or other counterparties which prevent the institution from disclosing the information.

## 10. Materiality

(1) The senior management of an authorized institution shall ensure that a disclosure made by the institution pursuant to these Rules contains all the material information.

(2) In this section—

“material information” (重要資料) means information—

- (a) which is required to be disclosed under these Rules; and
- (b) which, if it were not disclosed or were misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.

## 11. Consolidated group level disclosures

(1) Subject to subsections (2), (3), (4) and (5), a disclosure made pursuant to these Rules by an authorized institution applies to the institution on a consolidated basis whether or not the institution is also required to calculate its capital adequacy ratio on a solo basis or solo-consolidated basis pursuant to the Capital Rules.

(2) Subsection (1) does not apply to an authorized institution which is only required to calculate its capital adequacy ratio on a solo basis pursuant to the Capital Rules.

(3) Subsection (1) does not operate to prevent an authorized institution from making a disclosure pursuant to these Rules on a solo basis or solo-consolidated basis, as the case requires, in addition to a consolidated basis if the institution reasonably believes that to do so would provide greater clarity in understanding the institution’s state of affairs, profit and loss or capital adequacy ratio, for persons relying on the disclosures.

(4) Subsection (1) does not apply to disclosures required to be made by an authorized institution pursuant to any of—

- (a) sections 19, 20, 21, 22 and 23;
- (b) sections 25, 26, 27, 28, 29 and 30;
- (c) sections 34, 35, 36, 37, 38, 39, 40, 41, 42, 43 and 44; or
- (d) sections 46, 47, 48, 49, 50, 51 and 52.

(5) Subject to subsection (6), a disclosure required to be made by an authorized institution pursuant to any of the sections set out in subsection (4)(a), (b), (c) and (d) shall be made on the basis of preparation (whether fully consolidated or unconsolidated) which the institution believes is most appropriate for the purposes of providing clarity in understanding the institution's state of affairs, profit and loss or capital adequacy ratio for persons relying on the disclosures required by those sections, including (where appropriate) the basis used by the institution for accounting purposes for the reporting period to which the disclosure relates.

(6) A disclosure required to be made by an authorized institution pursuant to any of sections 28, 29, 30, 49, 50 and 51 shall be made on the same basis as that used by the institution to prepare the return respectively referred to in those sections.

## 12. Basis of disclosure

An authorized institution shall make disclosures pursuant to these Rules on the basis of—

- (a) subject to paragraphs (b) and (c), the approach it uses under the Capital Rules to calculate its regulatory capital or capital charge for credit risk, market risk or operational risk, as the case requires;
- (b) subject to paragraph (c), if it uses a combination of 2 or more approaches under the Capital Rules to calculate its regulatory capital or capital charge for credit risk, market risk or operational risk, the respective approach it uses for each of its exposure classes, business units, risk categories, or parts of its business, as the case requires;
- (c) if it has, during any one reporting period, used different approaches under the Capital Rules to calculate its regulatory capital or capital charge for credit risk, market risk or operational risk for the same exposure class, business unit, risk category, or part of its business, the respective approach it uses for each of its exposure classes, business units, risk categories, or parts of its business, as the case requires, as at the reporting date for that period.

### 13. Comparative information

(1) Subject to subsections (2), (3) and (4), an authorized institution which makes a quantitative disclosure (referred to in this section as the “relevant disclosure”) pursuant to these Rules shall ensure that the relevant disclosure is accompanied by, or contains, the like quantitative disclosure, if any, it made pursuant to these Rules—

- (a) subject to paragraph (b), for its immediately preceding annual reporting period;
- (b) in the case of profit and loss information and liquidity ratio—
  - (i) if the relevant disclosure relates to an annual reporting period, for the immediately preceding annual reporting period;
  - (ii) if the relevant disclosure relates to an interim reporting period, for the immediately preceding interim reporting period.

(2) Notwithstanding any case where subsection (1) does not apply to an authorized institution in a reporting period referred to in that subsection, the institution shall, if it is practicable for it to do so, ensure that the disclosure referred to in that subsection is accompanied by the equivalent to the like quantitative disclosure referred to in that subsection.

(3) Where an authorized institution uses, in 2 consecutive annual reporting periods, different approaches under the Capital Rules to calculate its regulatory capital or capital charge for credit risk, market risk or operational risk for the same exposure class, business unit, risk category, or part of its business, as the case requires, the institution is not required to comply with subsection (1) in respect of that exposure class, business unit, risk category, or part of its business, as the case may be, for the last of those periods if the quantitative disclosure concerned is accompanied by, or contains, a statement explaining the reason why subsection (1) has not been complied with in respect of that disclosure.

(4) Where the like quantitative disclosure contains a material restatement of information, the authorized institution shall ensure that the relevant disclosure is accompanied by, or contains, a statement giving the nature of the restatement and the institution’s reasons for the restatement.

### 14. Frequency

(1) An authorized institution shall make a disclosure pursuant to these Rules (other than Part 3) in respect of the institution’s last financial year.

(2) An authorized institution shall make a disclosure pursuant to Part 3 in respect of the 6 months period immediately after the close of the institution’s last financial year.



## **15. Group-wide disclosures made by parent bank of authorized institution**

An authorized institution may treat disclosures (referred to in this section as “foreign disclosures”) made by its parent bank, if any, as being part of the disclosures (referred to in this section as “local disclosures”) the institution is required to make pursuant to these Rules if the institution demonstrates to the satisfaction of the Monetary Authority that—

- (a) the foreign disclosures are not materially different from the local disclosures;
- (b) the foreign disclosures are prepared in accordance with the relevant principles of the document entitled “International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)” (published by the Basel Committee on Banking Supervision in June 2006) adopted by the relevant banking supervisory authority of the parent bank;
- (c) the characteristics of the institution’s relevant risk exposures subject to requirements of these Rules are not materially different from those of the relevant risk exposures of the parent bank;
- (d) the foreign disclosures provide a sufficient level of detail on the range of risks incurred by the institution and on how those risks are managed to permit third parties to form a considered view of the relevant aspects of the institution’s operations;
- (e) the disclosure statement of the institution contains a statement of the location where all the foreign disclosures can be found;
- (f) the foreign disclosures are set out on an Internet website of the parent bank which is accessible by the general public; and
- (g) the institution has a Hong Kong Internet website which contains a link to the parent bank’s Internet website referred to in paragraph (f).

## **16. Compliance**

(1) An authorized institution shall, in addition to the disclosures it is required to make pursuant to any other provisions of these Rules, include in its disclosure statement such other information that it is necessary to so include to ensure that—

- (a) the information contained in the statement is not false or misleading in any material respect; and
- (b) the operations of the institution are clearly explained.

(2) Notwithstanding any other provisions of these Rules, where it is not practicable for an authorized institution to make a disclosure required under these Rules for reasons not related to section 9, the institution—

- (a) shall, after consultation with the Monetary Authority, include in its disclosure statement—
  - (i) a statement that it is so unable and of the reasons why it is so unable; and
  - (ii) information which is the closest available alternative to the information which would have been the subject of those disclosures if the institution had not been so unable; and
- (b) shall not publish the disclosure statement except with the prior consent of the Monetary Authority.

### PART 3

#### INTERIM FINANCIAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG

#### **17. References to authorized institution in Part 3**

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(2).

#### **18. Scope of consolidation**

An authorized institution shall disclose—

- (a) the basis of consolidation including—
  - (i) an outline of the differences between the basis of consolidation for accounting purposes and the basis of consolidation for regulatory purposes; and
  - (ii) a description of—
    - (A) the institution's subsidiaries which are members of its consolidation group; and
    - (B) the institution's subsidiaries in respect of which the institution's shareholdings therein are deducted from the institution's core capital and supplementary capital as determined in accordance with Part 3 of the Capital Rules; and



- (b) any restrictions, or other major impediments, on the transfer of funds or regulatory capital between the members of the institution's consolidation group including any relevant regulatory, legal or taxation constraints on the transfer of capital.

## 19. Income statement and equity information

(1) An authorized institution shall disclose for the interim reporting period particulars of—

- (a) the institution's net gains or net losses on—
  - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately the amount of net gains or net losses arising from financial assets or financial liabilities, as the case may be, which are—
    - (A) designated as such upon initial recognition; and
    - (B) classified as held for trading;
  - (ii) available-for-sale financial assets, showing separately the amount of net gains or net losses recognized directly in equity during the interim reporting period and the amount of net gains or net losses removed from equity and recognized in profit or loss for the interim reporting period;
  - (iii) held-to-maturity investments;
  - (iv) loans and receivables; and
  - (v) financial liabilities measured at amortized cost;
- (b) the institution's total interest income and total interest expense (calculated by using the effective interest method) for financial assets or financial liabilities which are not measured at fair value through profit or loss;
- (c) the institution's fees and commission income and expense (other than amounts included in determining the effective interest rate) which arise from—
  - (i) financial assets or financial liabilities which are not measured at fair value through profit or loss; and
  - (ii) trust and other fiduciary activities which result in the holding or investing of assets on behalf of individuals, trusts, retirement benefits plans, and other entities;
- (d) the institution's interest income on impaired financial assets;
- (e) the institution's dividend income, broken down into receipts from listed and unlisted companies;
- (f) the institution's operating expenses, broken down into—
  - (i) staff costs;

- (ii) premises and equipment expenses, excluding depreciation charges (broken down if material);
- (iii) depreciation charges; and
- (iv) other operating expenses (broken down if material);
- (g) the institution's net gains or net losses from the disposal or revaluation of investment properties;
- (h) the institution's gains less losses from the disposal of property, plant and equipment;
- (i) the institution's impairment losses and specific provisions and collective provisions for impaired assets, broken down into—
  - (i) available-for-sale financial assets;
  - (ii) held-to-maturity investments; and
  - (iii) loans and receivables;
- (j) the institution's tax expenses or tax income, broken down into—
  - (i) Hong Kong tax;
  - (ii) overseas tax; and
  - (iii) deferred tax, if any; and
- (k) the institution's transfers to or from reserves.

(2) Subject to subsection (3), an authorized institution shall disclose an explanatory statement relating to the activities of the institution and its profit (or loss) during the interim reporting period.

(3) An authorized institution shall ensure that a statement disclosed by it pursuant to subsection (2)—

- (a) includes any material information the disclosure of which is necessary for an informed assessment of the trend of the activities and profit (or loss) of the institution together with an indication of any special factor which has influenced those activities and the profit (or loss) during the interim reporting period; and
- (b) enables a comparison to be made with the immediately preceding interim reporting period.

(4) An authorized institution shall, in relation to income and expense, disclose the nature and amount of items of income and expense within profit or loss where such items are of such size, nature or incidence that their disclosure is necessary for understanding the performance of the institution for the interim reporting period.

## **20. Balance sheet information**

An authorized institution shall disclose the carrying amounts of—

- (a) each of the institution's assets, broken down into—
  - (i) cash and balances with banks;

- (ii) placements with banks which have a residual contractual maturity of more than one month but not more than 12 months;
- (iii) financial assets measured at fair value through profit or loss, showing separately those—
  - (A) designated as such upon initial recognition; and
  - (B) classified as held for trading;
- (iv) held-to-maturity investments;
- (v) loans and receivables (other than those falling within subparagraph (i) or (ii)), broken down into—
  - (A) loans and advances to customers;
  - (B) loans and advances to banks;
  - (C) other accounts (broken down if material); and
  - (D) provisions for impaired loans and receivables (broken down into those against loans and advances to customers, loans and advances to banks, other accounts if material) which constitute the institution's—
    - (I) collective provisions; and
    - (II) specific provisions;
- (vi) available-for-sale financial assets;
- (vii) investments in associates; and
- (viii) property, plant and equipment and investment properties including, for each material class of such assets—
  - (A) the cost or valuation of the assets;
  - (B) any additions to, revaluations and disposals of, the assets made during the interim reporting period;
  - (C) the amount provided or written off for the depreciation or diminution in value of the assets during the interim reporting period;
  - (D) the accumulated depreciation of the assets; and
  - (E) the net book value of the assets; and
- (b) each of the institution's equity and liabilities, broken down into—
  - (i) deposits and balances from banks;
  - (ii) deposits from customers, broken down into—
    - (A) demand deposits and current accounts;
    - (B) savings deposits; and
    - (C) time, call and notice deposits;
  - (iii) certificates of deposit issued—
    - (A) measured at fair value through profit or loss, showing separately those—
      - (I) designated as such upon initial recognition; and

- (II) classified as held for trading; and
- (B) measured at amortized cost;
- (iv) issued debt securities—
  - (A) measured at fair value through profit or loss, showing separately those—
    - (I) designated as such upon initial recognition; and
    - (II) classified as held for trading; and
  - (B) measured at amortized cost;
- (v) deferred taxation, if any;
- (vi) other liabilities;
- (vii) provisions;
- (viii) loan capital (including particulars of types, coupon rates and maturities);
- (ix) minority interests;
- (x) share capital; and
- (xi) reserves, broken down into the regulatory reserve, revaluation reserves where maintained, and other material types of reserves.

## **21. Provisions supplementary to section 20**

(1) For the purposes of section 20, an authorized institution shall disclose—

- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired;
- (b) the amount of specific provisions made for such loans and advances;
- (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and
- (d) the percentage of such loans and advances to its total amount of loans and advances to customers.

(2) For the purposes of section 20, an authorized institution shall disclose—

- (a) the amount of impaired loans and advances to banks which are individually determined to be impaired;
- (b) the amount of specific provisions made for such loans and advances;
- (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and

- (d) the percentage of such loans and advances to its total amount of loans and advances to banks.

**22. Provisions supplementary to section 20: derivative transactions**

(1) An authorized institution shall disclose the total contractual or notional amounts of derivative transactions, broken down into—

- (a) exchange rate-related derivative contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);
- (b) interest rate derivative contracts; and
- (c) others.

(2) An authorized institution shall disclose such risk exposure information as is necessary for understanding the underlying risks of the exposures incurred by the institution through the institution's use of derivative transactions.

(3) Without prejudice to the generality of subsection (2), an authorized institution shall disclose—

- (a) the total risk-weighted amount for credit risk and the total fair value (after taking into account the effect of a valid bilateral netting agreement) of its exchange rate-related derivative contracts, interest rate derivative contracts and other derivative transactions, if any; and
- (b) the amount of fair value which has taken into account the effect of a valid bilateral netting agreement.

**23. Off-balance sheet exposures (other than derivative transactions)**

(1) Subject to subsection (2), an authorized institution shall disclose the contractual or notional amounts of each material class of its off-balance sheet exposures.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall disclose the contractual or notional amount of its off-balance sheet exposures which are—

- (a) direct credit substitutes;
- (b) transaction-related contingencies;
- (c) trade-related contingencies;
- (d) note issuance and revolving underwriting facilities;

- (e) forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed and asset sales with recourse; or
- (f) other commitments which do not fall within any of the classes of off-balance sheet exposures specified in paragraphs (a), (b), (c), (d) and (e), broken down into—
  - (i) commitments which have an original maturity of not more than one year;
  - (ii) commitments which have an original maturity of more than one year; and
  - (iii) commitments which may be cancelled at any time unconditionally by the institution or which provide for automatic cancellation due to a deterioration in the creditworthiness of the persons to whom the institution has made the commitments.

(3) Subject to subsection (4), an authorized institution shall disclose such risk exposure information as is necessary for understanding the underlying risks of the off-balance sheet exposures incurred by the institution.

(4) Without prejudice to the generality of subsection (3), an authorized institution shall disclose the total risk-weighted amount for credit risk of its off-balance sheet exposures, if any.

(5) In this section—  
“original maturity” (原訂到期期限), in relation to an off-balance sheet exposure of an authorized institution, means the period between the date on which the exposure is entered into by the institution and the earliest date on which the institution can, at its option, unconditionally cancel the exposure.

## 24. Capital structure and adequacy

(1) An authorized institution shall disclose the components of its capital base set out in the returns relating to capital adequacy it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the interim reporting period.

(2) Without prejudice to the generality of subsection (1), the disclosure referred to in that subsection required of an authorized institution shall include—

- (a) in the case of the institution’s core capital—
  - (i) the institution’s paid-up ordinary share capital;
  - (ii) the institution’s paid-up irredeemable non-cumulative preference shares;
  - (iii) the amount standing to the credit of the institution’s share premium account;



- (iv) the institution's published reserves;
- (v) the amount of the institution's profit and loss account;
- (vi) minority interests in the equity of the institution's subsidiaries which are included in the institution's core capital; and
- (vii) the total deductions from the institution's core capital;
- (b) in the case of the institution's supplementary capital—
  - (i) the institution's reserves which are attributable to fair value gains on the revaluation of its holdings of land and buildings;
  - (ii) the institution's reserves which are attributable to fair value gains on the revaluation of its holdings of available-for-sale equities and debt securities (after netting of any overall deficit required to be deducted from the institution's supplementary capital under section 44(3) of the Capital Rules);
  - (iii) the institution's fair value gains arising from its holdings of equities and debt securities designated at fair value through profit or loss included in the institution's supplementary capital;
  - (iv) the amount of the institution's regulatory reserve for general banking risks;
  - (v) the amount of the institution's collective provisions;
  - (vi) the amount of the institution's surplus provisions;
  - (vii) the institution's perpetual subordinated debt;
  - (viii) the institution's paid-up irredeemable cumulative preference shares;
  - (ix) the institution's term subordinated debt;
  - (x) the institution's paid-up term preference shares; and
  - (xi) minority interests in—
    - (A) the paid-up irredeemable non-cumulative preference shares of the institution's subsidiaries (being special purpose vehicles) in excess of the amount included in the institution's core capital which are included in the institution's supplementary capital; and
    - (B) the paid-up irredeemable cumulative preference shares and paid-up term preference shares of the institution's subsidiaries which are included in the institution's supplementary capital;
- (c) the total deductions from the institution's core capital and supplementary capital;
- (d) the institution's core capital after deductions;
- (e) the institution's supplementary capital after deductions; and

- (f) the institution's capital base.
- (3) An authorized institution shall disclose—
- (a) the total amount of any relevant capital shortfall in any of its subsidiaries which are not included in its consolidation group for regulatory purposes; and
  - (b) the names of its subsidiaries which are not included in its consolidation group.
- (4) Subject to subsections (5) and (6), an authorized institution shall disclose—
- (a) its capital adequacy ratio; and
  - (b) its core capital ratio.
- (5) Where an authorized institution is required under section 98(2) of the Ordinance as read with Part 2 of the Capital Rules to calculate its capital adequacy ratio on a consolidated basis, the institution shall disclose—
- (a) its capital adequacy ratio on a consolidated basis; and
  - (b) its core capital ratio.
- (6) Where subsection (5) does not apply to an authorized institution, the institution shall disclose—
- (a) its capital adequacy ratio on a solo basis; and
  - (b) its core capital ratio.
- (7) Where an authorized institution has earmarked part of its retained earnings for maintaining its regulatory reserve to satisfy the provisions of the Ordinance for prudential supervision purposes, the institution shall disclose—
- (a) this fact; and
  - (b) the amount of retained earnings so earmarked.
- (8) In this section—
- “core capital ratio” (核心資本比率), in relation to an authorized institution, means the ratio, expressed as a percentage, of the amount of the institution's core capital after making the deductions therefrom required by Part 3 of the Capital Rules, to the sum of, subject to sections 29, 30 and 31 of the Capital Rules, the institution's risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk as determined in accordance with the Capital Rules;
- “relevant capital shortfall” (有關資本短欠), in relation to a subsidiary of an authorized institution—
- (a) which is a securities firm or insurance firm; and
  - (b) which is not the subject of a consolidation requirement imposed on the institution,
- means that amount which is deducted from the institution's core capital and supplementary capital pursuant to section 48(2)(h) of the Capital Rules.



## 25. General disclosures

(1) An authorized institution shall disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with—

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, public sector entities and others.

(2) An authorized institution shall disclose the gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties.

(3) An authorized institution shall disclose the basis of the country or geographical segment classification used for the purposes of subsections (1) and (2).

(4) An authorized institution shall disclose—

- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired and, if available, overdue loans and advances to customers, disclosed separately broken down by major countries or geographical segments;
- (b) the amounts of specific provisions allocated in respect of the loans and advances referred to in paragraph (a); and
- (c) that portion of its collective provisions which is allocated to any country or geographical segment.

(5) In this section—

“cross-border claim” (跨域債權), in relation to an authorized institution—

(a) subject to paragraph (b), includes—

- (i) receivables and loans and advances;
- (ii) cash and balances and placements with banks (including loans and advances to banks);
- (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and
- (iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);

(b) does not include—

- (i) claims arising between the institution and its branches or subsidiaries;
- (ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;
- (iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;

(iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or

(v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong;

“major country or geographical segment” (主要國家或地域分部)—

(a) in relation to an authorized institution’s cross-border claims, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total cross-border claims are attributable after taking into account any recognized risk transfer; or

(b) in relation to loans and advances to customers, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total amount of loans and advances to customers are attributable after taking into account any recognized risk transfer;

“recognized risk transfer” (認可風險轉移)—

(a) in relation to a cross-border claim of an authorized institution, means that—

(i) the claim is guaranteed by a person in a country which is different from that of the counterparty; or

(ii) the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch; or

(b) in relation to loans and advances to a customer of an authorized institution, means that the loans and advances are guaranteed by a person in a country which is different from that of the customer.

## 26. Sector information

(1) An authorized institution shall disclose the gross amount of loans and advances to customers, broken down into—

(a) loans and advances for use in Hong Kong—

(i) industrial, commercial and financial—

(A) property development;

(B) property investment;

(C) financial concerns;

(D) stockbrokers;

(E) wholesale and retail trade;

(F) manufacturing;

(G) transport and transport equipment;

(H) recreational activities;

- (I) information technology; and
- (J) others; and
- (ii) individuals—
  - (A) loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes;
  - (B) loans for the purchase of other residential properties;
  - (C) credit card advances; and
  - (D) others;
- (b) trade finance; and
- (c) loans and advances for use outside Hong Kong.

(2) An authorized institution shall disclose the extent to which loans and advances referred to in subsection (1) are covered by collateral or other security.

(3) Where an authorized institution's total amount of loans and advances to a counterparty type, or to a sector which has been classified by the institution as an industry sector, constitutes not less than 10% of the institution's total amount of loans and advances, the institution shall, in respect of that counterparty type or industry sector, as the case may be, disclose—

- (a) the amount of impaired loans and advances which are individually determined to be impaired and, if available, overdue loans and advances, set out separately; and
- (b) the amounts of specific provisions and collective provisions.

## **27. Overdue or rescheduled assets**

- (1) An authorized institution shall—
  - (a) disclose the gross amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year;
  - (b) disclose the percentage of its total amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (c) ensure that the total amount of loans and advances to customers as disclosed pursuant to paragraphs (a) and (b) corresponds to the total amount of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong as disclosed pursuant to section 26(1).

- (2) An authorized institution shall disclose—
  - (a) the gross amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (b) the percentage of its total amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year.
- (3) An authorized institution shall disclose—
  - (a) a description of any collateral held in respect of the overdue loans and advances and any other forms of credit risk mitigation and, unless impracticable, an estimate of the fair value of such collateral or such other forms of credit risk mitigation; and
  - (b) the amount of specific provisions made on such overdue loans and advances.
- (4) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to customers, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (1); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to customers.
- (5) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to banks, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (2); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to banks.
- (6) An authorized institution shall disclose the amount of other assets, broken down into major classes of assets (including trade bills and debt securities), which have been overdue for—
  - (a) more than 3 months but not more than 6 months;
  - (b) more than 6 months but not more than one year; and
  - (c) more than one year.
- (7) An authorized institution shall disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances.

## 28. Non-bank Mainland exposures

An authorized institution shall disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the categories in the return for non-bank Mainland exposures submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the interim reporting period.

## 29. Currency risk

(1) Subject to subsections (2) and (3), an authorized institution shall disclose its foreign currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to foreign currency positions it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the interim reporting period.

(2) Where an authorized institution's net position (in absolute terms) in a particular foreign currency constitutes not less than 10% of the institution's total net position in all foreign currencies, the institution shall disclose in respect of the particular currency its—

- (a) spot assets;
- (b) spot liabilities;
- (c) forward purchases;
- (d) forward sales;
- (e) net options position; and
- (f) net long (or net short) position.

(3) For the purposes of subsection (2), an authorized institution shall calculate its net options position on the basis of—

- (a) the delta-weighted position of its options contracts; or
- (b) the institution's internal reporting method.

(4) An authorized institution shall disclose the basis referred to in subsection (3) on which it calculates its net options position.

(5) Where an authorized institution's net structural position (assets less liabilities) in a particular foreign currency constitutes (in absolute terms) not less than 10% of the institution's total net structural position in all foreign currencies, the institution shall disclose that net structural position in that particular foreign currency.

(6) For the purposes of this section, an authorized institution shall convert all foreign currency amounts into their equivalents in Hong Kong dollars as at the reporting date in determining whether its net position or net structural position in a foreign currency constitutes not less than 10% of its total net position or total net structural position, as the case may be, in all foreign currencies.

### 30. Liquidity

(1) Subject to subsection (2), an authorized institution shall disclose its average liquidity ratio for the interim reporting period.

(2) For the purposes of subsection (1), an authorized institution—

- (a) shall calculate its average liquidity ratio as the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the interim reporting period;
- (b) may, with the prior consent of the Monetary Authority, include overseas branches or subsidiaries of the institution, or both, in the calculation of its average liquidity ratio.

## PART 4

### ANNUAL FINANCIAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG

### 31. References to authorized institution in Part 4

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(1).

### 32. Interpretation of Part 4

In this Part, unless the context otherwise requires—

“cash flow hedge” (現金流對沖) has the meaning assigned to it by section 35 of the Capital Rules;

“corporate” (法團) has the meaning assigned to it by section 139(1) of the Capital Rules;

“fair value hedge” (公平價值對沖), in relation to a hedging relationship of an authorized institution, means a hedge of the exposure to changes in the fair value of—

- (a) a financial asset or financial liability which is recognized on the institution's balance sheet;
- (b) a firm commitment which is not recognized on the institution's balance sheet; or
- (c) an identified portion of such an asset, liability or firm commitment, which is attributable to a particular risk and which could affect profit or loss;



“forecast transaction” (預期交易) has the meaning assigned to it by section 35 of the Capital Rules;

“hedges of net investments in foreign operation” (外地經營淨投資對沖), in relation to a hedging relationship of an authorized institution, means a hedge of the institution’s net investments in a foreign operation where—

(a) a foreign operation is a subsidiary, associate, joint venture or branch of the institution—

(i) the activities of which are based or conducted in a country other than that of the institution; or

(ii) the products, services and costs of which are principally denominated in a currency other than that in which the products, services and costs of the institution are principally denominated; and

(b) net investment in a foreign operation is the amount of the institution’s interest in the net assets of that operation;

“highly probable forecast transaction” (極有可能發生的預期交易), in relation to the forecast transaction which is the subject of a cash flow hedge, means the forecast transaction is highly probable and presents an exposure to variations in cash flows which could ultimately affect profit or loss;

“long lease” (長期租約) has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32);

“medium-term lease” (中期租約) has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32);

“related party” (關聯者), in relation to an authorized institution, means a person—

(a) who directly, or indirectly through one or more intermediaries—

(i) controls, is controlled by, or is under common control with, the institution;

(ii) has an interest in the institution which gives the person significant influence over the institution; or

(iii) has joint control over the institution;

(b) who is an associate of the institution;

(c) who is a joint venture in which the institution has joint control;

(d) who is a member of the key management personnel of the institution or of any holding company of the institution;

(e) who is a relative, within the meaning of section 79(1) of the Ordinance, of any individual falling within paragraph (a) or (d), and who, in his dealings with the institution, may be expected to influence or be influenced by that individual;

(f) who is controlled, jointly controlled or significantly influenced by any person falling within paragraph (d) or (e);

(g) significant voting power in which resides with, directly or indirectly, any person falling within paragraph (d) or (e); or

- (h) which is an entity which constitutes a post-employment benefit plan for the benefit of—
  - (i) the employees of the institution; or
  - (ii) the employees of any person falling within any of paragraphs (a), (b), (c), (d), (e), (f) and (g) in relation to the institution;

“related party transaction” (與關聯者的交易) means a transfer of resources, services or obligations between related parties, regardless of whether a price is charged;

“short lease” (短期租約) has the meaning assigned to it by the Tenth Schedule to the Companies Ordinance (Cap. 32).

### 33. Scope of consolidation

An authorized institution shall disclose—

- (a) the basis of consolidation including—
  - (i) an outline of the differences between the basis of consolidation for accounting purposes and the basis of consolidation for regulatory purposes; and
  - (ii) a description of—
    - (A) the institution’s subsidiaries which are members of its consolidation group; and
    - (B) the institution’s subsidiaries in respect of which the institution’s shareholdings therein are deducted from the institution’s core capital and supplementary capital as determined in accordance with Part 3 of the Capital Rules; and
- (b) any restrictions, or other major impediments, on the transfer of funds or regulatory capital between the members of the institution’s consolidation group including any relevant regulatory, legal or taxation constraints on the transfer of capital.

### 34. Principal accounting policies

(1) An authorized institution shall disclose the principal accounting policies it uses in the preparation of its financial statements.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall disclose—

- (a) the accounting policies, practices and methods it uses for credit risk exposures, in particular for loans and advances (including the measurement basis used for loans and advances at the time of their origination and at subsequent periods, and the recognition of interest income), and the determination of specific provisions, collective provisions and write-offs;



- (b) the accounting treatment of loans and advances upon the repossession of assets where such loans and advances to which the repossession of assets relate are material;
- (c) the accounting treatment of fees and expenses related to loans and advances (including whether any incentives relating to residential mortgage loans or other loans and advances have been written off or amortized) where the fees and expenses are material;
- (d) the principal accounting policies used for derivative transactions and off-balance sheet exposures (including an explanation of the accounting practices and major assumptions used for valuation and income recognition); and
- (e) the accounting policies used for offsetting assets and liabilities arising from derivative transactions.

### **35. Income statement and equity information**

(1) An authorized institution shall disclose for the annual reporting period particulars of—

- (a) the institution's net gains or net losses on—
  - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately the amount of net gains or net losses arising from financial assets or financial liabilities, as the case may be, which are—
    - (A) designated as such upon initial recognition; and
    - (B) classified as held for trading;
  - (ii) available-for-sale financial assets, showing separately the amount of net gains or net losses recognized directly in equity during the annual reporting period and the amount of net gains or net losses removed from equity and recognized in profit or loss for the annual reporting period;
  - (iii) held-to-maturity investments;
  - (iv) loans and receivables; and
  - (v) financial liabilities measured at amortized cost;
- (b) the institution's total interest income and total interest expense (calculated by using the effective interest method) for financial assets or financial liabilities which are not measured at fair value through profit or loss;
- (c) the institution's fees and commission income and expense (other than amounts included in determining the effective interest rate) which arise from—
  - (i) financial assets or financial liabilities which are not measured at fair value through profit or loss; and

- (ii) trust and other fiduciary activities which result in the holding or investing of assets on behalf of individuals, trusts, retirement benefits plans, and other entities;
  - (d) the institution's interest income on impaired financial assets;
  - (e) the institution's dividend income, broken down into receipts from listed and unlisted companies;
  - (f) the institution's operating expenses, broken down into—
    - (i) staff costs;
    - (ii) premises and equipment expenses, excluding depreciation charges (broken down if material);
    - (iii) depreciation charges; and
    - (iv) other operating expenses (broken down if material);
  - (g) the institution's net gains or net losses from the disposal or revaluation of investment properties;
  - (h) the institution's gains less losses from the disposal of property, plant and equipment;
  - (i) the institution's impairment losses and specific provisions and collective provisions for impaired assets, broken down into—
    - (i) available-for-sale financial assets;
    - (ii) held-to-maturity investments; and
    - (iii) loans and receivables;
  - (j) the institution's tax expense or tax income, broken down into—
    - (i) Hong Kong tax;
    - (ii) overseas tax; and
    - (iii) deferred tax, if any; and
  - (k) the institution's transfers to or from reserves.
- (2) An authorized institution shall, in relation to its tax expense or tax income, disclose the basis on which Hong Kong profits tax is calculated.
- (3) An authorized institution shall disclose any material amount—
- (a) set aside for provisions other than those for depreciation, renewals or diminution in the value of assets; or
  - (b) withdrawn from such provisions and not applied for the purposes thereof.
- (4) An authorized institution shall, in relation to income and expense, disclose the nature and amount of items of income and expense within profit or loss where such items are of such size, nature or incidence that their disclosure is necessary for understanding the performance of the institution for the annual reporting period.

### **36. Balance sheet information**

- (1) An authorized institution shall disclose the carrying amounts of—
- (a) each of the institution's assets, broken down into—

- (i) cash and balances with banks;
  - (ii) placements with banks which have a residual contractual maturity of more than one month but not more than 12 months;
  - (iii) financial assets measured at fair value through profit or loss, showing separately those—
    - (A) designated as such upon initial recognition; and
    - (B) classified as held for trading;
  - (iv) held-to-maturity investments;
  - (v) loans and receivables (other than those falling within subparagraph (i) or (ii)), broken down into—
    - (A) loans and advances to customers;
    - (B) loans and advances to banks;
    - (C) other accounts (broken down if material); and
    - (D) provisions for impaired loans and receivables (broken down into those against loans and advances to customers, loans and advances to banks, other accounts if material) which constitute the institution's—
      - (I) collective provisions; and
      - (II) specific provisions;
  - (vi) available-for-sale financial assets;
  - (vii) investments in associates; and
  - (viii) property, plant and equipment and investment properties including, for each material class of such assets—
    - (A) the cost or valuation of the assets;
    - (B) any additions to, revaluations and disposals of, the assets made during the annual reporting period;
    - (C) the amount provided or written off for the depreciation or diminution in value of the assets during the annual reporting period;
    - (D) the accumulated depreciation of the assets; and
    - (E) the net book value of the assets; and
- (b) each of the institution's equity and liabilities, broken down into—
- (i) deposits and balances from banks;
  - (ii) deposits from customers, broken down into—
    - (A) demand deposits and current accounts;
    - (B) savings deposits; and
    - (C) time, call and notice deposits;
  - (iii) certificates of deposit issued—
    - (A) measured at fair value through profit or loss, showing separately those—

- (I) designated as such upon initial recognition; and
- (II) classified as held for trading; and
- (B) measured at amortized cost;
- (iv) issued debt securities—
  - (A) measured at fair value through profit or loss, showing separately those—
    - (I) designated as such upon initial recognition; and
    - (II) classified as held for trading; and
    - (B) measured at amortized cost;
  - (v) deferred taxation, if any;
  - (vi) other liabilities;
  - (vii) provisions;
  - (viii) loan capital (including particulars of types, coupon rates and maturities);
  - (ix) minority interests;
  - (x) share capital; and
  - (xi) reserves, broken down into the regulatory reserve, revaluation reserves where maintained, and other material types of reserves.

(2) An authorized institution which maintains a regulatory reserve shall disclose the nature and purpose of the reserve.

(3) An authorized institution shall disclose particulars of any movements in provisions for impaired loans and receivables (including provisions against trade bills if material) during the annual reporting period.

(4) For the purposes of subsection (3), an authorized institution—

- (a) is not required to break down the movements in provisions referred to in that subsection into asset classes but is required to break down the movements into collective provisions and specific provisions; and
- (b) shall, in respect of the movements in provisions referred to in that subsection, disclose particulars of—
  - (i) the amount of new provisions charged to the profit and loss in the annual reporting period for losses on impaired loans and receivables;
  - (ii) the amount of provisions released back to the profit and loss in the annual reporting period;
  - (iii) the amount of loans and receivables which were written off in the annual reporting period;
  - (iv) the amount of recoveries in respect of loans and receivables which were written off in previous years; and
  - (v) the amount of foreign exchange adjustments, if any, in the annual reporting period.

**37. Provisions supplementary to section 36**

(1) For the purposes of section 36(4)(b)(i) and (ii), an authorized institution shall (whether or not its accounting practices include the recording of recoveries and write-offs through the provision for impaired loans and receivables) ensure that—

- (a) the amount of new provisions includes any amount of loans and receivables directly written off through the profit or loss in the annual reporting period;
- (b) the amount of provisions released back includes any amount of loans and receivables recovered directly through the profit or loss in the annual reporting period; and
- (c) the net amount of the amount of new provisions referred to in paragraph (a) and the amount of provisions released back referred to in paragraph (b) is consistent with the amount of provisions disclosed in the profit and loss information referred to in section 35(1).

(2) For the purposes of section 36, an authorized institution shall disclose—

- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired;
- (b) the amount of specific provisions made for such loans and advances;
- (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and
- (d) the percentage of such loans and advances to its total amount of loans and advances to customers.

(3) For the purposes of section 36, an authorized institution shall disclose—

- (a) the amount of impaired loans and advances to banks which are individually determined to be impaired;
- (b) the amount of specific provisions made for such loans and advances;
- (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and
- (d) the percentage of such loans and advances to its total amount of loans and advances to banks.

(4) For the purposes of section 36, an authorized institution shall—

- (a) subject to paragraph (b), disclose a breakdown of investments in securities (including treasury bills) into equity and debt securities and listed and unlisted securities;

- (b) ensure that the breakdown required by paragraph (a) is carried out separately for held-to-maturity securities, available-for-sale securities and securities designated at fair value through profit or loss; and
- (c) disclose the total fair value of listed securities, broken down into the securities groupings set out in paragraph (b).

(5) For the purposes of section 36, an authorized institution shall disclose separately a breakdown of the issuers of held-to-maturity securities, available-for-sale securities and securities designated at fair value through profit or loss into—

- (a) sovereigns;
- (b) public sector entities;
- (c) banks;
- (d) corporates; and
- (e) others.

(6) Subject to subsections (7) and (8), an authorized institution shall disclose a breakdown of the residual contractual maturity of its assets and liabilities into those which are repayable—

- (a) on demand;
- (b) within a period of not more than one month (except those repayable on demand);
- (c) within a period of more than one month but not more than 3 months;
- (d) within a period of more than 3 months but not more than one year;
- (e) within a period of more than one year but not more than 5 years;
- (f) within a period of more than 5 years; and
- (g) within an indefinite period.

(7) An authorized institution shall disclose a breakdown of its assets and liabilities referred to in subsection (6) into—

- (a) for its assets—
  - (i) loans and advances to customers;
  - (ii) cash and balances with banks and placements with banks (including loans and advances to banks);
  - (iii) certificates of deposit held;
  - (iv) debt securities held, which are measured at fair value through profit or loss, showing separately those—
    - (A) designated as such upon initial recognition; and
    - (B) classified as held for trading;
  - (v) debt securities held as available-for-sale securities; and
  - (vi) debt securities held as held-to-maturity securities; and
- (b) for its liabilities—
  - (i) deposits and balances from banks;



- (ii) deposits from customers;
- (iii) certificates of deposit issued; and
- (iv) issued debt securities.

(8) An authorized institution shall base the breakdown referred to in subsection (6) on the remaining period to the contractual maturity date of the asset or liability concerned.

- (9) For the purposes of section 36, an authorized institution shall—
- (a) disclose a breakdown of the gross amount (before accumulated depreciation) of property, plant and equipment, and investment properties into those included at cost and those included at valuation, if any;
  - (b) in the case of fixed assets which have been included at valuation, disclose the years in which those assets were valued and the values; and
  - (c) in the case of assets which have been valued during the annual reporting period, disclose—
    - (i) the names of the persons who valued them and particulars of their qualifications for doing so; and
    - (ii) the bases of valuation used by such persons.
- (10) For the purposes of section 36, an authorized institution shall—
- (a) subject to paragraph (b), disclose a breakdown of real property, being real property included in the property, plant and equipment, or in the investment properties, of the institution, into that held freehold and that held on a lease (broken down into long lease, medium-term lease and short lease);
  - (b) ensure the breakdown referred to in paragraph (a) distinguishes between properties held on lease in Hong Kong and properties held on lease outside Hong Kong.

(11) For the purposes of section 36, an authorized institution shall disclose particulars of the movements in reserves during the annual reporting period, including the surplus or deficit on the revaluation of property.

### **38. Provisions supplementary to section 36: derivative transactions**

(1) An authorized institution shall disclose a description of its objectives, policies and strategies for the use of derivative transactions (including the types of derivative contracts which qualify as hedges for accounting purposes, those which do not qualify as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss, those entered into for other purposes including trading, and whether they are exchange-traded or OTC derivative transactions).

(2) An authorized institution shall disclose the total contractual or notional amounts, total risk-weighted amount for credit risk and total fair value (after taking into account the effect of a valid bilateral netting agreement) of derivative transactions, broken down into—

- (a) exchange rate-related derivative contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);
- (b) interest rate derivative contracts; and
- (c) others.

(3) An authorized institution shall disclose a breakdown of the total contractual or notional amounts, total risk-weighted amount for credit risk and total fair value (after taking into account the effect of a valid bilateral netting agreement) of each material class of derivative transactions into—

- (a) exchange rate-related derivative contracts which are—
  - (i) forwards and futures contracts;
  - (ii) swap contracts;
  - (iii) option contracts purchased; and
  - (iv) option contracts written;
- (b) interest rate derivative contracts which are—
  - (i) forwards and futures contracts;
  - (ii) swap contracts;
  - (iii) option contracts purchased; and
  - (iv) option contracts written; and
- (c) others (broken down if material).

(4) For the purposes of subsection (3), an authorized institution shall disclose—

- (a) the amount of fair value which has taken into account the effect of a valid bilateral netting agreement; and
- (b) a breakdown of the total contractual or notional amounts of each material class of derivative transactions into—
  - (i) those which qualify as hedges for accounting purposes;
  - (ii) those which do not qualify as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss; or
  - (iii) those entered into for other purposes including trading.

**39. Off-balance sheet exposures  
(other than derivative  
transactions)**

(1) Subject to subsection (2), an authorized institution shall disclose the contractual or notional amounts of each material class of its off-balance sheet exposures.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall disclose the contractual or notional amount of its off-balance sheet exposures which are—

- (a) direct credit substitutes;
- (b) transaction-related contingencies;
- (c) trade-related contingencies;
- (d) note issuance and revolving underwriting facilities;
- (e) forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed and asset sales with recourse; or
- (f) other commitments which do not fall within any of the classes of off-balance sheet exposures specified in paragraphs (a), (b), (c), (d) and (e), broken down into—
  - (i) commitments which have an original maturity of not more than one year;
  - (ii) commitments which have an original maturity of more than one year; and
  - (iii) commitments which may be cancelled at any time unconditionally by the institution or which provide for automatic cancellation due to a deterioration in the creditworthiness of the persons to whom the institution has made the commitments.

(3) Subject to subsection (4), an authorized institution shall disclose such risk exposure information as is necessary for understanding the underlying risks of the off-balance sheet exposures incurred by the institution.

(4) Without prejudice to the generality of subsection (3), an authorized institution shall disclose the total risk-weighted amount for credit risk of its off-balance sheet exposures, if any.

(5) In this section—

“original maturity” (原訂到期期限), in relation to an off-balance sheet exposure of an authorized institution, means the period between the date on which the exposure is entered into by the institution and the earliest date on which the institution can, at its option, unconditionally cancel the exposure.

#### 40. Hedge accounting

(1) An authorized institution shall separately disclose, in respect of its hedges which are fair value hedges, cash flow hedges or hedges of net investments in foreign operations—

- (a) a description of each type of hedge;
- (b) a description of the financial instruments designated as hedging instruments and their fair values; and
- (c) the nature of the risks being hedged.

(2) An authorized institution shall disclose in respect of its cash flow hedges—

- (a) the periods when the cash flows are expected to occur and when they are expected to affect the institution's profit or loss;
- (b) a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur;
- (c) any amount which was recognized in equity for the annual reporting period;
- (d) any amount which was removed from equity and included in profit or loss for the annual reporting period, showing the amount included in each line item in the income statement; and
- (e) any amount which was removed from equity for the annual reporting period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability the acquisition or incurrence of which was a hedged highly probable forecast transaction.

(3) An authorized institution shall separately disclose—

- (a) in respect of its fair value hedges, gains or losses—
  - (i) on the hedging instrument; and
  - (ii) on the hedged item attributable to the hedged risk;
- (b) any ineffectiveness recognized in the institution's profit or loss which arises from cash flow hedges; and
- (c) any ineffectiveness recognized in the institution's profit or loss which arises from hedges of net investments in foreign operations.

(4) In this section—

“ineffectiveness” (無效部分), in relation to a hedge, means the degree to which changes in the fair value or cash flows of the hedged item concerned which are attributable to a hedged risk are not offset by changes in the fair value or cash flows of the hedging instrument.

#### 41. Fair value

(1) An authorized institution shall disclose the fair value of each class of its financial assets and financial liabilities in a way which permits such fair value to be compared with the carrying value of each such class.

(2) An authorized institution is not required to include in the disclosure required under subsection (1)—

- (a) the fair value of any financial asset or financial liability where the carrying value of such asset or liability is a reasonable approximation of its fair value;
- (b) the fair value of any equities—
  - (i) which do not have a quoted market price in an active market; and
  - (ii) which are measured at cost as the fair value of such equities cannot be measured reliably;
- (c) the fair value of any derivative contract the value of which is determined by reference to the value of, or any fluctuation in the value of, any equities referred to in paragraph (b); or
- (d) the fair value of any contract of insurance which contains a discretionary participation feature where the fair value of such feature cannot be measured reliably.

(3) In this section—

“discretionary participation feature” (酌情參與成分), in relation to a contract of insurance, means a right under the terms of the contract to receive, as a supplement to guaranteed benefits, additional benefits—

- (a) the amount of which is likely to be a significant portion of the total contractual benefits;
- (b) the amount and time for payment of which is, under the terms of the contract, at the discretion of the insurer which is a party to the contract; and
- (c) the amount of which is based on—
  - (i) the performance of a pool of contracts or a type of contract, as specified in the contract;
  - (ii) realized and unrealized investment returns on a pool of assets (as specified in the contract) held by the insurer which is a party to the contract; or
  - (iii) the profit or loss of the insurer which is a party to the contract.

#### 42. Cash flow statement

An authorized institution shall disclose a cash flow statement.

### **43. Related party transactions**

Where an authorized institution has entered into transactions with related parties, the institution shall disclose—

- (a) the nature of the related party relationships and such information about the transactions and outstanding balances as is necessary for understanding the potential effect of the relationships on the financial statements of the institution; and
- (b) the institution's policy for lending to related parties.

### **44. Assets used as security**

An authorized institution shall disclose—

- (a) the total amount of its secured liabilities; and
- (b) the nature and carrying values of its assets used as security.

### **45. Capital structure and adequacy**

(1) An authorized institution shall disclose a summary of the terms and conditions of the main features of all regulatory capital instruments issued by the institution, in particular in the case of innovative, complex or hybrid capital instruments.

(2) An authorized institution shall disclose the components of its capital base set out in the returns relating to capital adequacy it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

(3) Without prejudice to the generality of subsection (2), the disclosure referred to in that subsection required of an authorized institution shall include—

- (a) in the case of the institution's core capital—
  - (i) the institution's paid-up ordinary share capital;
  - (ii) the institution's paid-up irredeemable non-cumulative preference shares;
  - (iii) the amount standing to the credit of the institution's share premium account;
  - (iv) the institution's published reserves;
  - (v) the amount of the institution's profit and loss account;
  - (vi) minority interests in the equity of the institution's subsidiaries which are included in the institution's core capital; and
  - (vii) the total deductions from the institution's core capital;
- (b) in the case of the institution's supplementary capital—



- (i) the institution's reserves which are attributable to fair value gains on the revaluation of its holdings of land and buildings;
  - (ii) the institution's reserves which are attributable to fair value gains on the revaluation of its holdings of available-for-sale equities and debt securities (after netting of any overall deficit required to be deducted from the institution's supplementary capital under section 44(3) of the Capital Rules);
  - (iii) the institution's fair value gains arising from its holdings of equities and debt securities designated at fair value through profit or loss included in the institution's supplementary capital;
  - (iv) the amount of the institution's regulatory reserve for general banking risks;
  - (v) the amount of the institution's collective provisions;
  - (vi) the amount of the institution's surplus provisions;
  - (vii) the institution's perpetual subordinated debt;
  - (viii) the institution's paid-up irredeemable cumulative preference shares;
  - (ix) the institution's term subordinated debt;
  - (x) the institution's paid-up term preference shares; and
  - (xi) minority interests in—
    - (A) the paid-up irredeemable non-cumulative preference shares of the institution's subsidiaries (being special purpose vehicles) in excess of the amount included in the institution's core capital which are included in the institution's supplementary capital; and
    - (B) the paid-up irredeemable cumulative preference shares and paid-up term preference shares of the institution's subsidiaries which are included in the institution's supplementary capital;
  - (c) the total deductions from the institution's core capital and supplementary capital;
  - (d) the institution's core capital after deductions;
  - (e) the institution's supplementary capital after deductions; and
  - (f) the institution's capital base.
- (4) An authorized institution shall disclose—
- (a) the total amount of any relevant capital shortfall in any of its subsidiaries which are not included in its consolidation group for regulatory purposes; and
  - (b) the names of its subsidiaries which are not included in its consolidation group.

(5) Subject to subsections (6) and (7), an authorized institution shall disclose—

- (a) its capital adequacy ratio; and
- (b) its core capital ratio.

(6) Where an authorized institution is required under section 98(2) of the Ordinance as read with Part 2 of the Capital Rules to calculate its capital adequacy ratio on a consolidated basis, the institution shall disclose—

- (a) its capital adequacy ratio on a consolidated basis; and
- (b) its core capital ratio.

(7) Where subsection (6) does not apply to an authorized institution, the institution shall disclose—

- (a) its capital adequacy ratio on a solo basis; and
- (b) its core capital ratio.

(8) Where an authorized institution has earmarked part of its retained earnings for maintaining its regulatory reserve to satisfy the provisions of the Ordinance for prudential supervision purposes, the institution shall disclose—

- (a) this fact; and
- (b) the amount of retained earnings so earmarked.

(9) In this section—

“core capital ratio” (核心資本比率), in relation to an authorized institution, means the ratio, expressed as a percentage, of the amount of the institution’s core capital after making the deductions therefrom required by Part 3 of the Capital Rules, to the sum of, subject to sections 29, 30 and 31 of the Capital Rules, the institution’s risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk as determined in accordance with the Capital Rules;

“relevant capital shortfall” (有關資本短欠), in relation to a subsidiary of an authorized institution—

- (a) which is a securities firm or insurance firm; and
- (b) which is not the subject of a consolidation requirement imposed on the institution,

means that amount which is deducted from the institution’s core capital and supplementary capital pursuant to section 48(2)(h) of the Capital Rules.

#### 46. General disclosures

(1) Subject to subsection (2), an authorized institution shall—

- (a) disclose a description of each of its major business activities which is consistent with its internal management classifications;

- (b) subject to paragraph (c), disclose a breakdown of its major business activities expressed in absolute terms or in the case of each activity as a percentage of its total business activities; and
      - (c) if the breakdown referred to in paragraph (b) is expressed in absolute terms, ensure that the breakdown is consistent with the figures disclosed in the institution's audited financial statements.
  - (2) An authorized institution shall, for each major business activity—
    - (a) subject to subsection (3), disclose the amount of operating assets of the major business activity; and
    - (b) disclose particulars of the major business activity in relation to—
      - (i) total operating income (net of interest expense);
      - (ii) profit or loss before impairment losses and specific provisions and collective provisions for impaired assets;
      - (iii) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets;
      - (iv) profit or loss before taxation; or
      - (v) any combination of any of the matters referred to in subparagraphs (i), (ii), (iii) and (iv).
  - (3) For the purposes of subsection (2)(a), the operating assets of a major business activity of an authorized institution are those assets—
    - (a) which are employed in the course of the operating activities of the major business activity; and
    - (b) which are directly attributable to the major business activity or which can be reasonably allocated to that activity.
  - (4) Where not less than 10% of an authorized institution's—
    - (a) total operating income (net of interest expense);
    - (b) profit or loss before taxation;
    - (c) total assets;
    - (d) total liabilities; or
    - (e) contingent liabilities and commitments,

is booked in a single country or geographical segment, the institution shall disclose, for the item specified in each of paragraphs (a), (b), (c), (d) and (e), the absolute amount in respect of the country or geographical segment, as the case requires.

(5) For the purposes of subsections (1), (2), (3) and (4), an authorized institution shall ensure that the figures used in determining the breakdown and disclosure of the major business activities referred to in those subsections (including the item specified in each of paragraphs (a), (b), (c), (d) and (e) of subsection (4)) are consistent with the figures disclosed in the institution's audited financial statements.

(6) Where the fees and commission income from a product line of an authorized institution constitutes not less than 10% of the total amount of fees and commission income of the institution, the institution shall separately disclose the fees and commission income attributable to that product line.

(7) An authorized institution shall disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with—

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, public sector entities and others.

(8) An authorized institution shall disclose the gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties.

(9) An authorized institution shall disclose the basis of the country or geographical segment classification used for the purposes of subsections (7) and (8).

(10) An authorized institution shall disclose—

- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired and, if available, overdue loans and advances to customers, disclosed separately broken down by major countries or geographical segments;
- (b) the amounts of specific provisions allocated in respect of the loans and advances referred to in paragraph (a); and
- (c) that portion of its collective provisions which is allocated to any country or geographical segment.

(11) In this section—

“cross-border claim” (跨域債權), in relation to an authorized institution—

(a) subject to paragraph (b), includes—

- (i) receivables and loans and advances;
- (ii) cash and balances and placements with banks (including loans and advances to banks);
- (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and
- (iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);

(b) does not include—

- (i) claims arising between the institution and its branches or subsidiaries;
- (ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;

- (iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;
- (iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or
- (v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong;

“major business activity” (主要業務活動), in relation to an authorized institution, means the business activity constitutes not less than 10% of the total amount of the institution’s—

- (a) total operating income (net of interest expense);
- (b) profit or loss before impairment losses and specific provisions and collective provisions for impaired assets;
- (c) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets; or
- (d) profit or loss before taxation;

“major country or geographical segment” (主要國家或地域分部)—

- (a) in relation to an authorized institution’s cross-border claims, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total cross-border claims are attributable after taking into account any recognized risk transfer; or
- (b) in relation to loans and advances to customers, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total amount of loans and advances to customers are attributable after taking into account any recognized risk transfer;

“recognized risk transfer” (認可風險轉移)—

- (a) in relation to a cross-border claim of an authorized institution, means that—
  - (i) the claim is guaranteed by a person in a country which is different from that of the counterparty; or
  - (ii) the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch; or
- (b) in relation to loans and advances of a customer of an authorized institution, means that the loans and advances are guaranteed by a person in a country which is different from that of the customer.

#### 47. Sector information

(1) An authorized institution shall disclose the gross amount of loans and advances to customers, broken down into—

- (a) loans and advances for use in Hong Kong—
  - (i) industrial, commercial and financial—
    - (A) property development;
    - (B) property investment;
    - (C) financial concerns;
    - (D) stockbrokers;
    - (E) wholesale and retail trade;
    - (F) manufacturing;
    - (G) transport and transport equipment;
    - (H) recreational activities;
    - (I) information technology; and
    - (J) others; and
  - (ii) individuals—
    - (A) loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes;
    - (B) loans for the purchase of other residential properties;
    - (C) credit card advances; and
    - (D) others;
- (b) trade finance; and
- (c) loans and advances for use outside Hong Kong.

(2) An authorized institution shall disclose the extent to which loans and advances referred to in subsection (1) are covered by collateral or other security.

(3) Where an authorized institution's total amount of loans and advances to a counterparty type, or to a sector which has been classified by the institution as an industry sector, constitutes not less than 10% of the institution's total amount of loans and advances, the institution shall, in respect of that counterparty type or industry sector, as the case may be, disclose—

- (a) the amount of impaired loans and advances which are individually determined to be impaired and, if available, overdue loans and advances, set out separately;
- (b) the amounts of specific provisions and collective provisions; and
- (c) the amount of new provisions charged to profit and loss, and the amount of impaired loans and advances written off during the annual reporting period.



**48. Overdue or rescheduled assets**

- (1) An authorized institution shall—
  - (a) disclose the gross amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year;
  - (b) disclose the percentage of its total amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (c) ensure that the total amount of loans and advances to customers as disclosed pursuant to paragraphs (a) and (b) corresponds to the total amount of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong as disclosed pursuant to section 47(1).
- (2) An authorized institution shall disclose—
  - (a) the gross amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (b) the percentage of its total amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year.
- (3) An authorized institution shall disclose—
  - (a) a description of any collateral held in respect of its overdue loans and advances and any other forms of credit risk mitigation and, unless impracticable, an estimate of the fair value of such collateral or such other forms of credit risk mitigation; and
  - (b) the amount of specific provisions made on such overdue loans and advances.
- (4) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to customers, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (1); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to customers.
- (5) An authorized institution shall disclose—

- (a) the amount of rescheduled loans and advances to banks, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (2); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to banks.
- (6) An authorized institution shall disclose the amount of other assets, broken down into major classes of assets (including trade bills and debt securities), which have been overdue for—
- (a) more than 3 months but not more than 6 months;
  - (b) more than 6 months but not more than one year; and
  - (c) more than one year.
- (7) An authorized institution shall disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances.

#### **49. Non-bank Mainland exposures**

An authorized institution shall disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the categories in the return for non-bank Mainland exposures submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

#### **50. Currency risk**

(1) Subject to subsections (2) and (3), an authorized institution shall disclose its foreign currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to foreign currency positions it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

(2) Where an authorized institution's net position (in absolute terms) in a particular foreign currency constitutes not less than 10% of the institution's total net position in all foreign currencies, the institution shall disclose in respect of the particular currency its—

- (a) spot assets;
- (b) spot liabilities;
- (c) forward purchases;
- (d) forward sales;
- (e) net options position; and
- (f) net long (or net short) position.

(3) For the purposes of subsection (2), an authorized institution shall calculate its net options position on the basis of—

- (a) the delta-weighted position of its options contracts; or

(b) the institution's internal reporting method.

(4) An authorized institution shall disclose the basis referred to in subsection (3) on which it calculates its net options position.

(5) Where an authorized institution's net structural position (assets less liabilities) in a particular foreign currency constitutes (in absolute terms) not less than 10% of the institution's total net structural position in all foreign currencies, the institution shall disclose that net structural position in that particular foreign currency.

(6) For the purposes of this section, an authorized institution shall convert all foreign currency amounts into their equivalents in Hong Kong dollars as at the reporting date in determining whether its net position or net structural position in a foreign currency constitutes not less than 10% of its total net position or total net structural position, as the case may be, in all foreign currencies.

## 51. Liquidity

(1) Subject to subsection (2), an authorized institution shall disclose its average liquidity ratio for the annual reporting period.

(2) For the purposes of subsection (1), an authorized institution—

(a) shall calculate its average liquidity ratio as the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period;

(b) may, with the prior consent of the Monetary Authority, include overseas branches or subsidiaries of the institution, or both, in the calculation of its average liquidity ratio.

## 52. Corporate governance

An authorized institution shall disclose—

(a) the roles, functions and composition of any key committees established by its board of directors including any executive committee, credit committee, asset and liability committee or audit committee;

(b) the extent of its compliance with the guideline in the Supervisory Policy Manual module CG—1 issued by the Monetary Authority and entitled "Corporate Governance of Locally Incorporated Authorized Institutions"; and

(c) particulars of, and the reasons for, any failure by it to comply with the guideline referred to in paragraph (b).

## PART 5

### ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING STC APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES

#### **53. References to authorized institution, etc. in Part 5**

(1) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(3).

(2) For the avoidance of doubt, it is hereby declared that a reference to a securitization exposure in this Part includes a securitization exposure which is subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

#### **54. Interpretation of Part 5**

Section 51 of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 4 of the Capital Rules.

#### **55. Capital adequacy**

An authorized institution shall disclose—

- (a) a summary of the approach it uses to assess the adequacy of its capital to support current and future activities;
- (b) its capital requirements separately for each class of exposures in respect of which it uses the STC approach;
- (c) its capital requirements for securitization exposures;
- (d) subject to section 61(1), its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (e) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.

**56. General qualitative disclosures**

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and
    - (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
  - (ii) the methods it uses to identify and measure the various types of principal risk;
  - (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
  - (iv) the methods it uses to monitor and control the principal risks;
  - (v) the use of limits for controlling the principal risks;
  - (vi) the particulars of operational controls; and
  - (vii) the role of internal audit.

**57. Credit risk: specific disclosures**

An authorized institution shall disclose—

- (a) the names of the ECAIs it used in relation to its exposures during the annual reporting period and the institution’s reasons for the differences, if any, between its disclosure under this paragraph and the last disclosure it made under this paragraph;
- (b) the class of exposure for which each ECAI so named is so used;

- (c) a description of the process it used during the annual reporting period to map ECAI issuer ratings or ECAI issue specific ratings to exposures booked in the institution's banking book if that process is not a process prescribed in Part 4 of the Capital Rules;
- (d) for each separately disclosed class of exposures, the total amount of exposures (being the principal amount for on-balance sheet exposures or the credit equivalent amount for off-balance sheet exposures, as the case requires, net of specific provisions) covered by the STC approach;
- (e) for each separately disclosed class of exposures after the effect of recognized credit risk mitigation under the STC approach has been taken into account—
  - (i) the total amount of outstanding exposures (distinguishing between exposures which have an ECAI issue specific rating and those which do not); and
  - (ii) the respective risk-weighted amounts; and
- (f) the amount of credit exposures deducted from the institution's core capital and supplementary capital.

#### **58. General disclosures for counterparty credit risk-related exposures**

(1) An authorized institution shall disclose, in respect of its counterparty credit risk which arises from OTC derivative transactions, repo-style transactions and credit derivative contracts (other than recognized credit derivative contracts) booked in its banking book or trading book (referred to in this section as "relevant transactions"), a description of—

- (a) the methodology it uses to assign internal capital and credit limits for counterparty credit exposures; and
- (b) its policies for securing collateral and establishing provisions.

(2) An authorized institution shall disclose a breakdown of the major classes of its exposures by counterparty type.

(3) An authorized institution shall disclose, in respect of the relevant transactions—

- (a) the gross total positive fair value of the relevant transactions which are not repo-style transactions;
- (b) the credit equivalent amounts, after taking into account the effect of valid bilateral netting agreements, for the relevant transactions which are not repo-style transactions;
- (c) the net credit exposures to counterparties, after taking into account the effect of any valid bilateral netting agreements, for the relevant transactions which are repo-style transactions;



- (d) the recognized collateral (broken down by type of collateral) held by the institution for the relevant transactions;
  - (e) the credit equivalent amounts, or the net credit exposures, for the relevant transactions after taking into account the effect of any recognized collateral;
  - (f) the respective risk-weighted amounts for the relevant transactions;
  - (g) the notional amounts of recognized credit derivative contracts which provide credit protection for the relevant transactions; and
  - (h) the breakdown of the institution's credit equivalent amounts, or net credit exposures, and the risk-weighted amount of its credit exposures for each type of relevant transaction.
- (4) An authorized institution shall disclose the notional amounts of credit derivative contracts which create exposures to counterparty credit risk—
- (a) segregated between those used for the institution's credit portfolio and those used in the institution's intermediation activities, and broken down into each type of credit derivative contracts used; and
  - (b) broken down into the protection bought and the protection sold within each type of such contract.
- (5) A reference in this section to a relevant transaction which is a repo-style transaction means a transaction which falls within—
- (a) paragraph (c) of the definition of "repo-style transaction" in section 2(1) of the Capital Rules; or
  - (b) where the collateral provided by the authorized institution concerned is money, paragraph (d) of the definition of "repo-style transaction" in section 2(1) of the Capital Rules.

## 59. Credit risk mitigation

- (1) An authorized institution shall disclose, in respect of credit risk mitigation used by it other than for transactions and contracts which fall within section 58(1)—
- (a) its policies and processes for, and an indication of the extent to which it makes use of, on-balance sheet and off-balance sheet recognized netting;
  - (b) its policies and processes for the valuation and management of collateral;
  - (c) a description of the main types of recognized collateral taken by the institution;

- (d) the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute its credit risk mitigation; and
  - (e) information about both credit and market risk concentrations within the credit risk mitigation used by it.
- (2) An authorized institution shall disclose, for each separately disclosed class of exposures in respect of which the institution uses the STC approach other than for transactions and contracts which fall within section 58(1)—
- (a) the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized collateral after the application of any haircuts required under the Capital Rules; and
  - (b) the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized guarantees or recognized credit derivative contracts after the application of any haircuts required under the Capital Rules.
- (3) An authorized institution—
- (a) shall not make disclosures under this section in respect of credit derivative contracts which are treated as part of synthetic securitization transactions; and
  - (b) shall make disclosures under section 60 in respect of such credit derivative contracts.

## **60. Asset securitization**

- (1) An authorized institution which is an originating institution in securitization transactions shall disclose, in respect of the securitization transactions—
- (a) the institution's objectives in relation to securitizing the underlying exposures in the securitization transactions and the extent to which the securitization transactions transfer credit risk in respect of the underlying exposures away from the institution to other parties to the transaction;
  - (b) a summary of the institution's accounting policies for the securitization transactions, including—
    - (i) whether the transactions are treated as sales or financings;
    - (ii) recognition of gain-on-sale;

- (iii) key assumptions for valuing the securitization exposures retained (including any significant changes since the immediately preceding annual reporting period and the impact of such changes); and
- (iv) the treatment of synthetic securitization transactions if this is not covered by other accounting policies;
- (c) the total outstanding underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by class of exposure;
- (d) the total outstanding underlying exposures in the securitization transactions entered into by the institution in the annual reporting period and in which the institution did not, during the annual reporting period, retain any securitization exposure;
- (e) the securitization exposures of the institution resulting from the securitization transactions in which the institution only acted as a sponsor;
- (f) in the case of underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules—
  - (i) the amount of impaired or overdue exposures securitized, broken down by class of exposure; and
  - (ii) the losses recognized by the institution during the annual reporting period, broken down by class of exposure;
- (g) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, broken down by class of exposure;
- (h) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, the risk-weighted amounts of those exposures and the capital requirements for those exposures, in respect of which the institution uses the STC(S) approach;
- (i) the securitization exposures which have been fully deducted from the institution's core capital, broken down by class of exposure; and
- (j) the credit-enhancing interest-only strips and other exposures which have been deducted from the institution's core capital and supplementary capital, broken down by class of exposure.

(2) An authorized institution which is the originating institution in securitization transactions which are subject to an early amortization provision shall disclose—

- (a) the total principal amount of the drawn balances of the underlying exposures attributed to the originator's and investors' interests, broken down by class of exposure;
- (b) the total capital requirements, in respect of which the institution uses the STC(S) approach, incurred by the institution against the originator's retained shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure; and
- (c) the total capital requirements, in respect of which the institution uses the STC(S) approach, incurred by the institution against the investors' shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure.

(3) An authorized institution which is the originating institution in securitization transactions shall disclose a summary of the securitization transactions it has entered into during the annual reporting period including—

- (a) the underlying exposures which have been securitized, broken down by class of exposure; and
- (b) the amount of recognized gain or loss on sale, broken down by class of exposure.

(4) An authorized institution shall disclose, in respect of its securitization transactions and the securitization exposures assumed by it (whether it is the originating institution or an investing institution)—

- (a) the roles played by the institution in the securitization transactions (including a description of its involvement in each class of exposures into which the underlying exposures in the securitization transactions would fall); and
- (b) the names of the ECAIs the institution used in relation to the securitization exposures during the annual reporting period and the class of securitization exposure for which each such ECAI was so used.

(5) An authorized institution which is an investing institution in securitization transactions shall disclose, in respect of the related securitization exposures assumed by it—

- (a) the total amount of the securitization exposures, broken down by class of exposure;
- (b) the total amount of the securitization exposures, the risk-weighted amount of the securitization exposures, and the capital requirements for the securitization exposures, in respect of which the institution uses the STC(S) approach; and
- (c) the securitization exposures which the institution has deducted from its core capital and supplementary capital, broken down by class of exposure.

(6) Section 227(1) of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 7 of the Capital Rules.

## 61. Market risk

(1) An authorized institution which has an exemption under section 22(1) of the Capital Rules shall disclose that fact.

(2) An authorized institution which uses the STM approach to calculate its market risk shall disclose—

- (a) its positions covered by the approach; and
- (b) its market risk capital charge for its—
  - (i) interest rate exposures (including options exposures if applicable);
  - (ii) equity exposures (including options exposures if applicable);
  - (iii) foreign exchange (including gold) exposures (including options exposures if applicable); and
  - (iv) commodity exposures (including options exposures if applicable).

(3) An authorized institution which uses the IMM approach to calculate its market risk capital charge shall—

- (a) disclose the positions covered by the approach;
- (b) subject to paragraph (c), disclose a description of—
  - (i) the methodologies it uses to ensure it complies with section 316(3) of the Capital Rules in respect of its valuation of market risk positions; and
  - (ii) the extent to which the methodologies referred to in subparagraph (i) are so used;
- (c) ensure that the description referred to in paragraph (b) includes—
  - (i) an articulation of the soundness standards on which the institution's internal capital adequacy assessment is based; and
  - (ii) a description of the methodologies the institution uses to achieve a capital adequacy assessment which is consistent with the soundness standards;
- (d) for each position covered by the approach, disclose—
  - (i) the characteristics of the internal models it uses;
  - (ii) a description of the stress-testing the institution applies to the position; and
  - (iii) a description of the approach the institution uses to back-test or validate the accuracy and consistency of the internal models it uses and the modelling processes; and

- (e) for each position covered by the approach and for each internal model used by the institution for the position, separately disclose—
- (i) the institution's average, high and low VaR for the annual reporting period and the VaR as at the last trading day of the annual reporting period; and
  - (ii) a comparison of VaR estimates with actual gains or losses experienced by the institution and a breakdown of important exceptions in back-test results.

(4) Where pursuant to section 20(2)(a) of the Capital Rules an authorized institution uses an approach (referred to in this subsection as the "relevant approach") other than the STM approach or IMM approach to calculate its market risk, then subsection (3), with all necessary modifications, applies to and in relation to the institution and the relevant approach as that subsection applies to and in relation to an authorized institution which uses the IMM approach to calculate its market risk.

(5) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (4), require the institution to make such disclosures, in addition to any other disclosures required under this section to be made by the institution, as the Monetary Authority considers necessary to understand the institution's market risk positions.

(6) An authorized institution shall comply with the requirements of a notice given to it under subsection (5).

(7) Section 281 of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 8 of the Capital Rules.

## **62. Operational risk**

An authorized institution shall disclose each approach for operational risk capital assessment it uses to calculate its exposure to operational risk.

## **63. Equity exposures: disclosures for banking book positions**

An authorized institution shall, in respect of its equity exposures booked in its banking book—

- (a) disclose how it differentiates between its equity holdings taken for relationship and strategic reasons and its equity holdings taken for other reasons (including the reason of capital gains);
- (b) disclose a description of its main policies covering the valuation and accounting of equity holdings, including—



- (i) the accounting techniques and valuation methodologies the institution uses;
  - (ii) the key assumptions and practices affecting such valuation; and
  - (iii) any significant changes in those practices during the annual reporting period; and
- (c) disclose—
- (i) the cumulative realized gains or losses arising from sales and liquidations of its equity holdings in the annual reporting period; and
  - (ii) the total unrealized gains or losses recognized in the institution's reserves but not through the profit and loss account, and any amount of unrealized gains included in, or unrealized losses deducted from, the institution's supplementary capital for capital adequacy ratio purposes.

#### **64. Interest rate exposures in banking book**

An authorized institution shall, in respect of its interest rate exposures which arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value (or other relevant measures used by the institution) for significant upward and downward interest rate movements in accordance with the method the institution uses for stress-testing, broken down by currency, if relevant.

### **PART 6**

#### **ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING BSC APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES**

#### **65. References to authorized institution in Part 6**

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(4).

## 66. Interpretation of Part 6

Section 105 of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 5 of the Capital Rules.

## 67. Capital adequacy

An authorized institution shall disclose—

- (a) its capital requirements for exposures in respect of which it uses the BSC approach;
- (b) its capital requirements for securitization exposures;
- (c) subject to section 70(1), its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (d) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.

## 68. General qualitative disclosures

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and

- (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
- (ii) the methods it uses to identify and measure the various types of principal risk;
- (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
- (iv) the methods it uses to monitor and control the principal risks;
- (v) the use of limits for controlling the principal risks;
- (vi) the particulars of operational controls; and
- (vii) the role of internal audit.

## 69. Asset securitization

(1) An authorized institution which is an investing institution in securitization transactions shall disclose, in respect of the securitization transactions and the securitization exposures assumed by it—

- (a) the roles played by the institution in the securitization transactions (including a description of its involvement in each class of exposures into which the underlying exposures in the securitization transactions would fall);
- (b) the names of the ECAIs the institution used in relation to the securitization exposures during the annual reporting period and the class of securitization exposure for which each such ECAI was so used;
- (c) the total amount of the securitization exposures, broken down by class of exposure;
- (d) the total amount of the securitization exposures, the risk-weighted amount of the securitization exposures, and the capital requirements for the securitization exposures, in respect of which the institution uses the STC(S) approach; and
- (e) the securitization exposures which the institution has deducted from its core capital and supplementary capital, broken down by class of exposure.

(2) Section 227(1) of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 7 of the Capital Rules.

## 70. Market risk

(1) An authorized institution which has an exemption under section 22(1) of the Capital Rules shall disclose that fact.

(2) An authorized institution which uses the STM approach to calculate its market risk shall disclose—

- (a) its positions covered by the approach; and
- (b) its market risk capital charge for its—
  - (i) interest rate exposures (including options exposures if applicable);
  - (ii) equity exposures (including options exposures if applicable);
  - (iii) foreign exchange (including gold) exposures (including options exposures if applicable); and
  - (iv) commodity exposures (including options exposures if applicable).

(3) An authorized institution which uses the IMM approach to calculate its market risk capital charge shall—

- (a) disclose the positions covered by the approach;
- (b) subject to paragraph (c), disclose a description of—
  - (i) the methodologies it uses to ensure it complies with section 316(3) of the Capital Rules in respect of its valuation of market risk positions; and
  - (ii) the extent to which the methodologies referred to in subparagraph (i) are so used;
- (c) ensure that the description referred to in paragraph (b) includes—
  - (i) an articulation of the soundness standards on which the institution's internal capital adequacy assessment is based; and
  - (ii) a description of the methodologies the institution uses to achieve a capital adequacy assessment which is consistent with the soundness standards;
- (d) for each position covered by the approach, disclose—
  - (i) the characteristics of the internal models it uses;
  - (ii) a description of the stress-testing the institution applies to the position; and
  - (iii) a description of the approach the institution uses to back-test or validate the accuracy and consistency of the internal models it uses and the modelling processes; and
- (e) for each position covered by the approach and for each internal model used by the institution for the position, separately disclose—
  - (i) the institution's average, high and low VaR for the annual reporting period and the VaR as at the last trading day of the annual reporting period; and

- (ii) a comparison of VaR estimates with actual gains or losses experienced by the institution and a breakdown of important exceptions in back-test results.

(4) Where pursuant to section 20(2)(a) of the Capital Rules an authorized institution uses an approach (referred to in this subsection as the “relevant approach”) other than the STM approach or IMM approach to calculate its market risk, then subsection (3), with all necessary modifications, applies to and in relation to the institution and the relevant approach as that subsection applies to and in relation to an authorized institution which uses the IMM approach to calculate its market risk.

(5) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (4), require the institution to make such disclosures, in addition to any other disclosures required under this section to be made by the institution, as the Monetary Authority considers necessary to understand the institution’s market risk positions.

(6) An authorized institution shall comply with the requirements of a notice given to it under subsection (5).

(7) Section 281 of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 8 of the Capital Rules.

## **71. Interest rate exposures in banking book**

An authorized institution shall, in respect of its interest rate exposures which arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value for significant upward and downward interest rate movements broken down, if relevant, by currency in accordance with the method used in the returns relating to interest rate risk exposures submitted by it to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the annual reporting period.

## PART 7

### ADDITIONAL ANNUAL DISCLOSURES TO BE MADE BY AUTHORIZED INSTITUTION USING IRB APPROACH TO CALCULATE ITS CREDIT RISK FOR NON-SECURITIZATION EXPOSURES

#### **72. References to authorized institution, etc. in Part 7**

(1) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(5).

(2) For the avoidance of doubt, it is hereby declared that—

- (a) a reference to a non-securitization exposure in this Part does not include a non-securitization exposure the subject of an exemption under section 12(2)(a) of the Capital Rules;
- (b) a reference to a securitization exposure in this Part does not include a securitization exposure which is subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

#### **73. Interpretation of Part 7**

Section 139(1) of the Capital Rules applies to the interpretation of this Part as that section applies to the interpretation of Part 6 of the Capital Rules.

#### **74. Capital adequacy**

(1) Subject to subsection (2), an authorized institution shall disclose—

- (a) a summary of the approach it uses to assess the adequacy of its capital to support current and future activities; and
- (b) its capital requirements separately for each IRB class or IRB subclass, as the case may be, under the separately disclosed IRB calculation approach as specified in section 147 of the Capital Rules used by the institution, covering—
  - (i) corporate (including small-and-medium sized corporates, specialized lending and purchased corporate receivables), sovereign and bank exposures;
  - (ii) residential mortgages to individuals and property-holding shell companies (including purchased retail receivables if applicable);
  - (iii) qualifying revolving retail exposures (including purchased retail receivables if applicable);



- (iv) other retail exposures to individuals and small business retail exposures (including purchased retail receivables if applicable); and
- (v) other exposures including cash items, and other exposures which do not fall within the IRB class of corporate, sovereign, bank, retail or equity exposures or the IRB subclass of cash items.

(2) For the purposes of a disclosure under subsection (1) by an authorized institution, the institution shall distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless—

- (a) those IRB subclasses are insignificant in size relative to the overall credit exposures of the institution; and
- (b) the risk profiles of those IRB subclasses are so similar that to make that distinction would not assist in understanding the risk profile of the institution's retail businesses.

(3) An authorized institution shall disclose its capital requirements for its securitization exposures.

(4) An authorized institution shall disclose—

- (a) subject to paragraph (b), its capital requirements for the IRB class of equity exposures booked in its banking book; and
- (b) a breakdown of such equity exposures into—
  - (i) equity exposures subject to the market-based approach further broken down into—
    - (A) equity exposures subject to the simple risk-weight method; and
    - (B) equity exposures subject to the internal models method; and
  - (ii) equity exposures subject to the PD/LGD approach.

(5) An authorized institution shall disclose—

- (a) its capital charge for market risk calculated in accordance with—
  - (i) the approach it uses under the Capital Rules to calculate its market risk; or
  - (ii) the approach it has approval under section 20(2)(a) of the Capital Rules to use to calculate its market risk, as the case requires; and
- (b) its capital charge for operational risk calculated in accordance with the approach it uses under the Capital Rules to calculate its operational risk.

**75. General qualitative disclosures**

(1) Subject to subsection (2), an authorized institution shall disclose a description of the main types of risk which arise from its business.

(2) Without prejudice to the generality of subsection (1), an authorized institution shall ensure that the description it discloses pursuant to that subsection—

- (a) includes its credit, market, operational, liquidity, interest rate and foreign exchange risks (referred to in this subsection as “principal risks”);
- (b) covers the policies, procedures and controls it uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks; and
- (c) includes a description of—
  - (i) the title or position of the board and senior management members who—
    - (A) oversee risk management;
    - (B) set the strategy and policy for each type of principal risk; and
    - (C) set the means for ensuring that the strategy and policy referred to in sub-subparagraph (B) is implemented;
  - (ii) the methods it uses to identify and measure the various types of principal risk;
  - (iii) the particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities;
  - (iv) the methods it uses to monitor and control the principal risks;
  - (v) the use of limits for controlling the principal risks;
  - (vi) the particulars of operational controls; and
  - (vii) the role of internal audit.

**76. Credit risk: disclosures for exposures subject to supervisory estimates in use of IRB approach**

Where any exposures of an authorized institution are subject to the supervisory estimates under the use of the IRB approach (including any specialized lending subject to the supervisory slotting criteria approach and equity exposures under the simple risk-weight method), the institution shall disclose the total EAD of the exposures falling within each IRB class.

**77. Credit risk: specific disclosures**

(1) Where an authorized institution does not exclusively use the IRB approach to calculate its credit risk for non-securitization exposures (and has any of its non-securitization exposures the subject of an exemption under section 12(2)(a) of the Capital Rules), the institution shall disclose a description of the nature of the exposures within each IRB class which are subject to the separately disclosed IRB calculation approach, as specified in section 147 of the Capital Rules, used by the institution.

(2) An authorized institution shall disclose an explanation and review of—

- (a) the structure of its rating systems and the relationship between internal ratings and external ratings;
- (b) the use of internal estimates by the institution other than for the calculation of the institution's regulatory capital under the use of the IRB approach;
- (c) the process it uses for managing and recognizing credit risk mitigation; and
- (d) the control mechanisms it uses for its rating systems (including a description of the independence and accountability of the rating process, and the ratings system reviews).

(3) Subject to subsections (4) and (5), an authorized institution shall disclose a description of its internal ratings process separately for each IRB class or IRB subclass comprising—

- (a) corporate (including small-and-medium sized corporates, specialized lending, and purchased corporate receivables), sovereign and bank exposures;
- (b) equity exposures if the institution uses the PD/LGD approach for equity exposures booked in its banking book;
- (c) residential mortgages to individuals and property-holding shell companies (including purchased retail receivables if applicable);
- (d) qualifying revolving retail exposures (including purchased retail receivables if applicable); and
- (e) other retail exposures to individuals and small business retail exposures (including purchased retail receivables if applicable).

(4) An authorized institution shall ensure that the description required to be disclosed by it pursuant to subsection (3) of an IRB class or IRB subclass referred to in that subsection includes—

- (a) the type of exposure which falls within the IRB class or IRB subclass, as the case may be;
- (b) for exposures which fall within subsection (3)(a) or (b)—

- (i) a description of the definitions of the variables, methods and data for estimation and validation of the PD, LGD and EAD; and
- (ii) a description of the assumptions employed in the derivation of the variables referred to in subparagraph (i) except for—
  - (A) the LGD and EAD related disclosures which do not apply in the case of an authorized institution which uses the foundation IRB approach; and
  - (B) the LGD and EAD related disclosures which do not apply to equity exposures; and
- (c) for exposures which fall within subsection (3)(c), (d) or (e)—
  - (i) a description of the definitions of the variables, methods and data for the estimation and validation of the PD, LGD and EAD; and
  - (ii) a description of the assumptions employed in the derivation of the variables referred to in subparagraph (i).

(5) For the purposes of subsections (3) and (4), an authorized institution shall distinguish between qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures unless—

- (a) those IRB subclasses are insignificant in size relative to the overall credit exposures of the institution; and
  - (b) the risk profiles of those IRB subclasses are so similar that to make that distinction would not assist in understanding the risk profile of the institution's retail businesses.
- (6) An authorized institution shall disclose a description of—
- (a) the approaches it uses for determining specific provisions and collective provisions; and
  - (b) the statistical methods it uses for the purposes of those approaches.

## **78. Credit risk: disclosures on risk assessment**

(1) An authorized institution shall, for each IRB class or IRB subclass referred to in section 77(3), disclose the amount of exposures (including the EAD of on-balance sheet exposures and off-balance sheet exposures) separately for each IRB calculation approach used by the institution to which the exposures concerned are subject.

- (2) Subject to subsection (3), an authorized institution shall disclose—
- (a) for the IRB classes referred to in section 77(3)(a), the EAD of on-balance sheet exposures and off-balance sheet exposures, on a stand-alone or combined basis, in respect of the counterparties to the exposures;

- (b) for the IRB class referred to in section 77(3)(b), the EAD of its equity exposures; and
  - (c) for each IRB class referred to in section 77(3)(a) and (b)—
    - (i) if the institution uses the advanced IRB approach, the exposure-weighted average LGD expressed as a percentage; and
    - (ii) the exposure-weighted average risk-weight.
- (3) For the purposes of complying with subsection (2), an authorized institution shall ensure that—
- (a) the disclosure required by that subsection is across a number of obligor grades (including defaulted obligor grades) which is sufficient for a consistent, logical and cogent differentiation of the credit risk inherent in the exposures to which the information required to be disclosed under subsection (2)(a), (b) or (c) relates;
  - (b) the disclosures of the PD, LGD and EAD take into account the effect of recognized collateral, recognized netting, recognized guarantees and recognized credit derivative contracts;
  - (c) the disclosure of an obligor grade includes the exposure-weighted average PD for each grade; and
  - (d) it does not aggregate obligor grades for the purposes of disclosure except in a manner which represents a breakdown of obligor grades, used in the IRB approach used by the institution, which provides for a consistent, logical and cogent differentiation of the credit risk inherent in the exposures.
- (4) An authorized institution which uses the advanced IRB approach—
- (a) shall disclose the amount of undrawn commitments and exposure-weighted average EAD of each IRB class referred to in section 77(3)(a) and (b); and
  - (b) only needs to disclose one estimate of the EAD of each such IRB class.
- (5) An authorized institution shall, in respect of an IRB subclass referred to in section 77(3)(c), (d) or (e), disclose—
- (a) on a pool basis the information required by subsections (2) and (3); or
  - (b) a breakdown of exposures (the EAD of on-balance sheet exposures and off-balance sheet exposures) on a pool basis into a number of EL grades which is sufficient to provide for a consistent, logical and cogent differentiation of the credit risk inherent in the exposures.

## **79. Credit risk: disclosures on historical results**

- (1) An authorized institution shall—

- (a) disclose the actual losses (including write-offs and specific provisions) for the annual reporting period for each IRB class or IRB subclass referred to in section 77(3); and
  - (b) in that disclosure—
    - (i) explain how the actual losses referred to in paragraph (a) differ from past actual losses in respect of the same such IRB class or IRB subclass; and
    - (ii) explain the factors which caused the losses referred to in paragraph (a).
- (2) An authorized institution shall—
- (a) subject to paragraph (b), disclose the estimates made against actual outcomes over a period sufficient to permit understanding of the reliability of the information provided by the institution pursuant to section 78 over the long run;
  - (b) without prejudice to the generality of paragraph (a)—
    - (i) subject to subparagraph (ii), disclose information on the estimates of losses against actual losses in each IRB class or IRB subclass referred to in section 77(3) over a long run to enable an assessment of the institution's performance of the internal rating processes for each such IRB class or IRB subclass;
    - (ii) where appropriate, disclose a breakdown of the information as disclosed pursuant to subparagraph (i) to provide an analysis of the PD and, if the institution uses the advanced IRB approach, the LGD and EAD outcomes against estimates provided in the disclosures it made pursuant to section 78; and
    - (iii) if there are material differences between the PD, LGD or EAD estimates given by the institution and the actual outcomes over the long run, disclose—
      - (A) a breakdown of the PD and, if the institution uses the advanced IRB approach, the LGD and EAD outcomes against estimates provided in the disclosures it made pursuant to section 78; and
      - (B) an explanation of those differences.
- (3) In this section—
- “long run” (長遠期間) means a period of time sufficient to capture a reasonable mix of high-default and low-default years of at least one economic cycle.



## **80. General disclosures for counterparty credit risk-related exposures**

(1) An authorized institution shall disclose, in respect of its counterparty credit risk which arises from OTC derivative transactions, repo-style transactions and credit derivative contracts (other than recognized credit derivative contracts) booked in its banking book or trading book (referred to in this section as “relevant transactions”), a description of—

- (a) the methodology it uses to assign internal capital and credit limits for counterparty credit exposures; and
- (b) its policies for securing collateral and establishing provisions.

(2) An authorized institution shall disclose a breakdown of the major classes of its exposures by counterparty type.

(3) An authorized institution shall disclose, in respect of the relevant transactions—

- (a) the gross total positive fair value of the relevant transactions which are not repo-style transactions;
- (b) the credit equivalent amounts, after taking into account the effect of valid bilateral netting agreements, for the relevant transactions which are not repo-style transactions;
- (c) the net credit exposures to counterparties, after taking into account the effect of any valid bilateral netting agreements, for the relevant transactions which are repo-style transactions;
- (d) the recognized collateral (broken down by type of collateral) held by the institution for the relevant transaction;
- (e) the credit equivalent amounts, or the net credit exposures, for the relevant transactions after taking into account the effect of any recognized collateral;
- (f) the respective risk-weighted amounts for the relevant transactions;
- (g) the notional amounts of recognized credit derivative contracts which provide credit protection for the relevant transactions; and
- (h) the institution’s EAD and the risk-weighted amount of its credit exposures for each type of relevant transaction.

(4) An authorized institution shall disclose the notional amounts of credit derivative contracts which create exposures to counterparty credit risk—

- (a) segregated between those used for the institution’s credit portfolio and those used in the institution’s intermediation activities, and broken down into each type of credit derivative contracts used; and
- (b) broken down into the protection bought and the protection sold within each type of such contract.

- (5) A reference in this section to a relevant transaction which is a repo-style transaction means a transaction which falls within—
- (a) paragraph (c) of the definition of “repo-style transaction” in section 2(1) of the Capital Rules; or
  - (b) where the collateral provided by the authorized institution concerned is money, paragraph (d) of the definition of “repo-style transaction” in section 2(1) of the Capital Rules.

## **81. Credit risk mitigation**

(1) An authorized institution shall disclose, in respect of credit risk mitigation used by it other than for transactions and contracts which fall within section 80(1)—

- (a) its policies and processes for, and an indication of the extent to which it makes use of, on-balance sheet and off-balance sheet recognized netting;
  - (b) its policies and processes for the valuation and management of collateral;
  - (c) a description of the main types of recognized collateral taken by the institution;
  - (d) the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute its credit risk mitigation; and
  - (e) information about both credit and market risk concentrations within the credit risk mitigation used by it.
- (2) An authorized institution shall disclose—
- (a) for each separately disclosed IRB class of exposures in respect of which the institution uses the foundation IRB approach other than for transactions and contracts which fall within section 80(1), the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized collateral after the application of any haircuts required under the Capital Rules; and
  - (b) for each separately disclosed IRB class of exposures other than for transactions and contracts which fall within section 80(1), the total exposure (after, if applicable, the effect of any on-balance sheet or off-balance sheet recognized netting has been taken into account) which is covered by recognized guarantees or recognized credit derivative contracts after the application of any haircuts required under the Capital Rules.

- (3) An authorized institution—
- (a) shall not make disclosures under this section in respect of credit derivative contracts which are treated as part of synthetic securitization transactions; and
  - (b) shall make disclosures under section 82 in respect of such credit derivative contracts.

## **82. Asset securitization**

(1) An authorized institution which is an originating institution in securitization transactions shall disclose, in respect of the securitization transactions—

- (a) the institution's objectives in relation to securitizing the underlying exposures in the securitization transactions and the extent to which the securitization transactions transfer credit risk in respect of the underlying exposures away from the institution to other parties to the transaction;
- (b) a summary of the institution's accounting policies for the securitization transactions, including—
  - (i) whether the transactions are treated as sales or financings;
  - (ii) recognition of gain-on-sale;
  - (iii) key assumptions for valuing the securitization exposures retained (including any significant changes since the immediately preceding annual reporting period and the impact of such changes); and
  - (iv) the treatment of synthetic securitization transactions if this is not covered by other accounting policies;
- (c) the total outstanding underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by class of exposure;
- (d) the total outstanding underlying exposures in the securitization transactions entered into by the institution in the annual reporting period and in which the institution did not, during the annual reporting period, retain any securitization exposure;
- (e) the securitization exposures of the institution resulting from the securitization transactions in which the institution only acted as a sponsor;
- (f) in the case of underlying exposures which have been securitized by the institution and which are subject to Part 7 of the Capital Rules—

- (i) the amount of impaired or overdue exposures securitized, broken down by class of exposure; and
- (ii) the losses recognized by the institution during the annual reporting period, broken down by class of exposure;
- (g) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, broken down by class of exposure;
- (h) the total amount of securitization exposures retained and securitization exposures repurchased by the institution, the risk-weighted amounts of those exposures and the capital requirements for those exposures, in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, broken down into the respective risk-weights of those exposures;
- (i) the securitization exposures which have been fully deducted from the institution's core capital, broken down by class of exposure; and
- (j) the credit-enhancing interest-only strips and other exposures which have been deducted from the institution's core capital and supplementary capital, broken down by class of exposure.

(2) An authorized institution which is the originating institution in securitization transactions which are subject to an early amortization provision shall disclose—

- (a) the total principal amount of the drawn balances of the underlying exposures attributed to the originator's and investors' interests, broken down by class of exposure;
- (b) the total capital requirements, in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, incurred by the institution against the originator's retained shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure; and
- (c) the total capital requirements, in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, incurred by the institution against the investors' shares of the principal amount of the drawn balances and undrawn balances of the underlying exposures, broken down by class of exposure.

(3) An authorized institution which is the originating institution in securitization transactions shall disclose a summary of the securitization transactions it has entered into during the annual reporting period including—

- (a) the underlying exposures which have been securitized, broken down by class of exposure; and

(b) the amount of recognized gain or loss on sale, broken down by class of exposure.

(4) An authorized institution shall disclose, in respect of its securitization transactions and the securitization exposures assumed by it (whether it is the originating institution or an investing institution)—

(a) the roles played by the institution in the securitization transactions including a description of its involvement in each class of exposures into which the underlying exposures in the securitization transactions would fall; and

(b) the names of the ECAIs the institution used in relation to the securitization exposures during the annual reporting period and the class of securitization exposure for which each such ECAI was so used.

(5) An authorized institution which is an investing institution in securitization transactions shall disclose, in respect of the related securitization exposures assumed by it—

(a) the total amount of the securitization exposures, broken down by class of exposure;

(b) the total amount of the securitization exposures, the risk-weighted amount of the securitization exposures, and the capital requirements for the securitization exposures, in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, broken down into the respective risk-weights of the securitization exposures; and

(c) the securitization exposures which the institution has deducted from its core capital and supplementary capital, broken down by class of exposure.

(6) Section 227(1) of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 7 of the Capital Rules.

### **83. Market risk**

(1) An authorized institution which uses the STM approach to calculate its market risk shall disclose—

(a) its positions covered by the approach; and

(b) its market risk capital charge for its—

(i) interest rate exposures (including options exposures if applicable);

(ii) equity exposures (including options exposures if applicable);

(iii) foreign exchange (including gold) exposures (including options exposures if applicable); and

(iv) commodity exposures (including options exposures if applicable).

(2) An authorized institution which uses the IMM approach to calculate its market risk capital charge shall—

- (a) disclose the positions covered by the approach;
- (b) subject to paragraph (c), disclose a description of—
  - (i) the methodologies it uses to ensure it complies with section 316(3) of the Capital Rules in respect of its valuation of market risk positions; and
  - (ii) the extent to which the methodologies referred to in subparagraph (i) are so used;
- (c) ensure that the description referred to in paragraph (b) includes—
  - (i) an articulation of the soundness standards on which the institution's internal capital adequacy assessment is based; and
  - (ii) a description of the methodologies the institution uses to achieve a capital adequacy assessment which is consistent with the soundness standards;
- (d) for each position covered by the approach, disclose—
  - (i) the characteristics of the internal models it uses;
  - (ii) a description of the stress-testing the institution applies to the position; and
  - (iii) a description of the approach the institution uses to back-test or validate the accuracy and consistency of the internal models it uses and the modelling processes; and
- (e) for each position covered by the approach and for each internal model used by the institution for the position, separately disclose—
  - (i) the institution's average, high and low VaR for the annual reporting period and the VaR as at the last trading day of the annual reporting period; and
  - (ii) a comparison of VaR estimates with actual gains or losses experienced by the institution and a breakdown of important exceptions in back-test results.

(3) Where pursuant to section 20(2)(a) of the Capital Rules an authorized institution uses an approach (referred to in this subsection as the "relevant approach") other than the STM approach or IMM approach to calculate its market risk, then subsection (2), with all necessary modifications, applies to and in relation to the institution and the relevant approach as that subsection applies to and in relation to an authorized institution which uses the IMM approach to calculate its market risk.



(4) The Monetary Authority may, by notice in writing given to an authorized institution which falls within subsection (3), require the institution to make such disclosures, in addition to any other disclosures required under this section to be made by the institution, as the Monetary Authority considers necessary to understand the institution's market risk positions.

(5) An authorized institution shall comply with the requirements of a notice given to it under subsection (4).

(6) Section 281 of the Capital Rules applies to the interpretation of this section as that section applies to the interpretation of Part 8 of the Capital Rules.

#### **84. Operational risk**

An authorized institution shall disclose each approach for operational risk capital assessment it uses to calculate its exposure to operational risk.

#### **85. Equity exposures: disclosures for banking book positions**

An authorized institution shall, in respect of its equity exposures booked in its banking book—

- (a) disclose how it differentiates between its equity holdings taken for relationship and strategic reasons and its equity holdings taken for other reasons (including the reason of capital gains);
- (b) disclose a description of its main policies covering the valuation and accounting of equity holdings, including—
  - (i) the accounting techniques and valuation methodologies the institution uses;
  - (ii) the key assumptions and practices affecting such valuation; and
  - (iii) any significant changes in those practices during the annual reporting period; and
- (c) disclose—
  - (i) the cumulative realized gains or losses arising from sales and liquidations of its equity holdings in the annual reporting period; and
  - (ii) the total unrealized gains or losses recognized in the institution's reserves but not through the profit and loss account, and any amount of unrealized gains included in, or unrealized losses deducted from, the institution's supplementary capital for capital adequacy ratio purposes.

**86. Interest rate exposures in banking book**

An authorized institution shall, in respect of its interest rate exposures which arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value (or other relevant measures used by the institution) for significant upward and downward interest rate movements in accordance with the method the institution uses for stress-testing, broken down by currency, if relevant.

**PART 8**

**DISCLOSURES TO BE MADE BY AUTHORIZED  
INSTITUTIONS INCORPORATED  
OUTSIDE HONG KONG**

**Division 1—General provisions****87. References to authorized institution, etc.  
in Part 8**

(1) Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution which falls within section 3(6).

(2) A disclosure required to be made under Division 3 by an authorized institution is a disclosure only in respect of—

- (a) the institution's local branches; and
- (b) the institution's principal place of business in Hong Kong.

**Division 2—General requirements****88. Medium and location of disclosure  
and issue of press release**

(1) Subject to subsection (2), where an authorized institution is required under this Part to disclose information (however described), it shall make that disclosure by—

- (a) preparing a disclosure statement, in the Chinese and English languages, which contains the information;
- (b) publishing the statement not later than 3 months after the end of the reporting period to which the statement relates; and
- (c) complying with the other provisions of this section applicable to or in relation to the statement.

(2) An authorized institution shall ensure that when its disclosure statement is published—

- (a) the statement contains—
  - (i) all the disclosures required under this Part to be made by the institution for the reporting period to which the statement relates; or
  - (ii) a prescribed summary; and
- (b) neither the disclosures referred to in paragraph (a)(i), nor the prescribed summary referred to in paragraph (a)(ii), nor any information published with the prescribed summary, is false or misleading in any material respect.

(3) An authorized institution shall, at the same time as it publishes its disclosure statement, issue a press release to the press in Hong Kong, in the Chinese and English languages containing the statement or consisting of the statement.

(4) An authorized institution shall lodge a copy of its disclosure statement with the Monetary Authority before it publishes the statement.

(5) The Monetary Authority shall keep each copy of a disclosure statement lodged with it pursuant to subsection (4) with the register.

(6) Subject to subsections (7) and (8), an authorized institution shall—

- (a) keep one or more than one copy (referred to in this subsection as the “relevant copy”) of each of its disclosure statements—
  - (i) in its principal place of business in Hong Kong; and
  - (ii) if practicable, in each local branch of the institution; and
- (b) make a relevant copy available for inspection by the general public during the business hours of the institution at the place where the relevant copy is kept.

(7) Where an authorized institution publishes a disclosure statement which contains the disclosures referred to in subsection (2)(a)(i), it shall ensure that the statement is available for inspection under subsection (6) for a period—

- (a) in the case where the statement relates to an annual reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding annual reporting period; or

(b) in the case where the statement relates to an interim reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding interim reporting period.

(8) Where an authorized institution publishes a disclosure statement which contains a prescribed summary—

(a) it shall ensure that the statement is available for inspection under subsection (6) for a period—

(i) in the case where the statement relates to an annual reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding annual reporting period; or

(ii) in the case where the statement relates to an interim reporting period, not less than the period commencing on the date of the publication of the statement and ending on the date of publication in accordance with subsection (1) of its disclosure statement in respect of the immediately succeeding interim reporting period; and

(b) it shall not change the means as stated in the prescribed summary by which the general public may readily access the relevant complete disclosures unless it amends the summary in such a manner, and at such time, that the summary at all times states the means by which the general public may readily access the relevant complete disclosures.

(9) Subsections (4) and (5) apply to an amendment referred to in subsection (8)(b) of a prescribed summary contained in an authorized institution's disclosure statement as they apply to the disclosure statement.

(10) In this section—

“prescribed summary” (訂明撮要), in relation to an authorized institution's disclosure statement, means a statement setting out the location at which and the means by which the general public may readily access all the disclosures—

(a) which are required under this Part to be made by the institution for the reporting period to which the disclosure statement relates; and

(b) which are readily accessible by the general public (whether on an Internet website or by any other means or combination of means).

## 89. Materiality

(1) The chief executive of an authorized institution shall ensure that a disclosure made by the institution pursuant to this Part contains all the material information.

(2) In this section—  
“material information” (重要資料) means information—

- (a) which is required to be disclosed under this Part; and
- (b) which, if it were not disclosed or were misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.

## 90. Comparative information

(1) Subject to subsections (2) and (3), an authorized institution which makes a quantitative disclosure pursuant to this Part shall—

- (a) for disclosures under Division 3, except for the profit and loss information disclosure under section 93 and the liquidity ratio disclosure under section 103, also disclose the corresponding amounts for the immediately preceding reporting period;
- (b) for the profit and loss information disclosure under section 93 and the liquidity ratio disclosure under section 103, where a disclosure statement relates to the annual reporting period, also disclose the figures for the institution’s immediately preceding annual reporting period and, where a disclosure statement relates to the interim reporting period, also disclose the figures for the institution’s immediately preceding interim reporting period;
- (c) for disclosures under Division 4, except for the pre-tax profit disclosure under section 106(1)(e), also disclose the corresponding amounts for the immediately preceding reporting period; and
- (d) for the pre-tax profit disclosure under section 106(1)(e), where a disclosure statement relates to the annual reporting period, also disclose the figures for the institution’s immediately preceding annual reporting period and, where a disclosure statement relates to the interim reporting period, also disclose the figures for the institution’s immediately preceding interim reporting period.

(2) Where an authorized institution is unable to comply with subsection (1)(a), (b), (c) or (d) because interim consolidated information is not provided by the institution as a whole, the institution shall disclose the annual figures as comparatives.

(3) Where an authorized institution makes disclosures pursuant to this Part for the first time and it is not practicable for the institution to provide the comparative figures required by subsection (1)(a), (b), (c) or (d) (including that subsection as read with subsection (2)), the institution is not required to comply with that subsection for the first reporting period concerned.

## **91. Frequency**

An authorized institution shall make a disclosure pursuant to this Part—

- (a) in respect of the institution's last financial year; and
- (b) in respect of the 6 months period immediately after the close of the institution's last financial year.

## **92. Compliance**

(1) An authorized institution shall, in addition to the disclosures it is required to make pursuant to any other provisions of this Part, include in its disclosure statement such other information that it is necessary to so include to ensure that—

- (a) the information contained in the statement is not false or misleading in any material respect; and
- (b) the operations of the institution are clearly explained.

(2) Notwithstanding any other provisions of this Part, where it is not practicable for an authorized institution to make a disclosure required under this Part, the institution—

- (a) shall, after consultation with the Monetary Authority, include in its disclosure statement—
  - (i) a statement that it is so unable and of the reasons why it is so unable; and
  - (ii) information which is the closest available alternative to the information which would have been the subject of those disclosures if the institution had not been so unable; and
- (b) shall not publish the disclosure statement except with the prior consent of the Monetary Authority.

### **Division 3—Branch information disclosures**

## **93. Income statement information**

(1) Subject to subsection (2), an authorized institution shall disclose its profit and loss information on—

- (a) interest income;



- (b) interest expense;
- (c) other operating income, broken down into—
  - (i) gains less losses arising from trading in foreign currencies;
  - (ii) gains less losses on securities held for trading purposes;
  - (iii) gains less losses from other trading activities;
  - (iv) net fees and commission income (including separate disclosure of gross fees and commission income and expenses); and
  - (v) others;
- (d) operating expenses (broken down if material);
- (e) impairment losses and provisions for impaired loans and receivables;
- (f) gains less losses from the disposal of property, plant and equipment and investment properties;
- (g) profit before taxation;
- (h) tax expense or tax income; and
- (i) profit after taxation.

(2) Where a disclosure under subsection (1) by an authorized institution does not give a full picture of the underlying performance of the institution's business in Hong Kong, the institution shall disclose such further explanation as is necessary for understanding the performance of that business.

#### **94. Balance sheet information**

An authorized institution shall disclose the carrying amounts of—

- (a) each of the institution's assets, broken down into—
  - (i) cash and balances with banks (except those included in amount due from overseas offices of the institution);
  - (ii) placements with banks which have a residual contractual maturity of more than one month but not more than 12 months (except those included in amount due from overseas offices of the institution);
  - (iii) amount due from overseas offices of the institution;
  - (iv) trade bills;
  - (v) certificates of deposit held;
  - (vi) securities held for trading purposes;
  - (vii) loans and receivables (other than those falling within subparagraph (i), (ii) or (iii)), broken down into—
    - (A) loans and advances to customers;
    - (B) loans and advances to banks;
    - (C) other accounts (broken down if material); and

- (D) provisions for impaired loans and receivables (broken down into those against loans and advances to customers, loans and advances to banks, other accounts if material) which constitute the institution's—
  - (I) collective provisions; and
  - (II) specific provisions;
- (viii) investment securities;
- (ix) other investments;
- (x) property, plant and equipment and investment properties; and
- (xi) total assets; and
- (b) each of the institution's liabilities, broken down into—
  - (i) deposits and balances from banks (except those included in amount due to overseas offices of the institution);
  - (ii) deposits from customers, broken down into—
    - (A) demand deposits and current accounts;
    - (B) savings deposits; and
    - (C) time, call and notice deposits;
  - (iii) amount due to overseas offices of the institution;
  - (iv) certificates of deposit issued;
  - (v) issued debt securities;
  - (vi) other liabilities;
  - (vii) provisions; and
  - (viii) total liabilities.

#### **95. Provisions supplementary to sections 93 and 94**

(1) Where provisions for loans and advances or other exposures have been set aside for an authorized institution's local branches (including the institution's principal place of business in Hong Kong) and are maintained at the overseas head office of the institution, the institution shall disclose the provisioning policy of the head office including the amount of specific provisions allocated for exposures maintained in the local branches of the institution (including the institution's principal place of business in Hong Kong).

- (2) An authorized institution shall disclose—
- (a) the amount of impaired loans and advances to customers which are individually determined to be impaired;
  - (b) the amount of specific provisions made for such loans and advances;

- (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and
  - (d) the percentage of such loans and advances to its total amount of loans and advances to customers.
- (3) An authorized institution shall disclose—
  - (a) the amount of impaired loans and advances to banks which are individually determined to be impaired;
  - (b) the amount of specific provisions made for such loans and advances;
  - (c) the value of collateral which has been taken into account in respect of such loans and advances to which the specific provisions relate; and
  - (d) the percentage of such loans and advances to its total amount of loans and advances to banks.

**96. Provisions supplementary to  
section 94: derivative  
transactions**

(1) An authorized institution shall disclose the total contractual or notional amounts of derivative transactions, broken down into—

- (a) exchange rate-related derivative contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);
- (b) interest rate derivative contracts; and
- (c) others.

(2) An authorized institution shall disclose such risk exposure information as is necessary for understanding the underlying risks of the exposures incurred by the institution through the institution's use of derivative transactions.

(3) Without prejudice to the generality of subsection (2), an authorized institution shall disclose—

- (a) the total fair value (after taking into account the effect of a valid bilateral netting agreement) of its exchange rate-related derivative contracts, interest rate derivative contracts and other derivative transactions, if any; and
- (b) the amount of fair value which has taken into account the effect of a valid bilateral netting agreement.

**97. Off-balance sheet exposures  
(other than derivative  
transactions)**

(1) An authorized institution shall disclose the contractual or notional amounts of each material class of its off-balance sheet exposures (broken down if material) including—

- (a) direct credit substitutes;
- (b) transaction-related contingencies;
- (c) trade-related contingencies;
- (d) note issuance and revolving underwriting facilities;
- (e) other commitments; and
- (f) others (including forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales with recourse or other transactions with recourse).

(2) An authorized institution shall disclose such risk exposure information as is necessary for understanding the underlying risks of the off-balance sheet exposures incurred by the institution.

**98. General disclosures**

(1) An authorized institution shall disclose a breakdown of its cross-border claims by major countries or geographical segments in accordance with—

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, public sector entities and others.

(2) An authorized institution shall—

- (a) disclose the gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties; and
- (b) disclose a breakdown of—
  - (i) overdue loans and advances to customers, broken down by major countries or geographical segments; and
  - (ii) impaired loans and advances to customers which are individually determined to be impaired, broken down by major countries or geographical segments.

(3) An authorized institution shall disclose the basis of the country or geographical segment classification used for the purposes of subsections (1) and (2).

(4) In this section—

“cross-border claim” (跨域債權), in relation to an authorized institution—

- (a) subject to paragraph (b), includes—
- (i) receivables and loans and advances;
  - (ii) cash and balances and placements with banks (including loans and advances to banks);
  - (iii) holdings of certificates of deposit, bills, promissory notes, commercial paper, other debt instruments and investments; and
  - (iv) accrued interest and overdue interest on the assets referred to in subparagraphs (i), (ii) and (iii);
- (b) does not include—
- (i) claims arising between the institution and its head office, branches or subsidiaries;
  - (ii) claims on a counterparty in Hong Kong, except to the extent that such claims are guaranteed by a person outside Hong Kong;
  - (iii) claims on a counterparty outside Hong Kong, to the extent that such claims are guaranteed by a person in Hong Kong;
  - (iv) claims on a branch of a bank located in Hong Kong, except where the head office of the bank is located outside Hong Kong; or
  - (v) claims on a branch of a bank located outside Hong Kong, where the head office of the bank is located in Hong Kong;

“major country or geographical segment” (主要國家或地域分部)—

- (a) in relation to an authorized institution’s cross-border claims, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total cross-border claims are attributable after taking into account any recognized risk transfer; or
- (b) in relation to loans and advances to customers, means a country or geographical segment, as the case may be, to which not less than 10% of the institution’s total amount of loans and advances to customers are attributable after taking into account any recognized risk transfer;

“recognized risk transfer” (認可風險轉移)—

- (a) in relation to a cross-border claim of an authorized institution, means that—
- (i) the claim is guaranteed by a person in a country which is different from that of the counterparty; or
  - (ii) the claim is on an overseas branch of a bank and the head office of the bank is located in a country which is different from that of the overseas branch; or

- (b) in relation to loans and advances of a customer of an authorized institution, means that the loans and advances are guaranteed by a person in a country which is different from that of the customer.

## 99. Sector information

(1) An authorized institution shall disclose the gross amount of loans and advances to customers, broken down into—

(a) loans and advances for use in Hong Kong—

(i) industrial, commercial and financial—

- (A) property development;
- (B) property investment;
- (C) financial concerns;
- (D) stockbrokers;
- (E) wholesale and retail trade;
- (F) manufacturing;
- (G) transport and transport equipment;
- (H) recreational activities;
- (I) information technology; and
- (J) others; and

(ii) individuals—

- (A) loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes;
- (B) loans for the purchase of other residential properties;
- (C) credit card advances; and
- (D) others;

(b) trade finance; and

(c) loans and advances for use outside Hong Kong.

(2) An authorized institution shall disclose the extent to which loans and advances referred to in subsection (1) are covered by collateral or other security.

## 100. Overdue or rescheduled assets

(1) An authorized institution shall—

(a) disclose the gross amount of loans and advances to customers which have been overdue for—

- (i) more than 3 months but not more than 6 months;
- (ii) more than 6 months but not more than one year; and
- (iii) more than one year;



- (b) disclose the percentage of its total amount of loans and advances to customers which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (c) ensure that the total amount of loans and advances to customers as disclosed pursuant to paragraphs (a) and (b) corresponds to the total amount of loans and advances for use in Hong Kong, trade finance, and loans and advances for use outside Hong Kong, as disclosed pursuant to section 99(1).
- (2) An authorized institution shall disclose—
  - (a) the gross amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year; and
  - (b) the percentage of its total amount of loans and advances to banks which have been overdue for—
    - (i) more than 3 months but not more than 6 months;
    - (ii) more than 6 months but not more than one year; and
    - (iii) more than one year.
- (3) An authorized institution shall disclose—
  - (a) a description of any collateral held in respect of the overdue loans and advances and any other forms of credit risk mitigation and, unless impracticable, an estimate of the fair value of such collateral or such other forms of credit risk mitigation; and
  - (b) the amount of specific provisions made on such overdue loans and advances.
- (4) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to customers, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (1); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to customers.
- (5) An authorized institution shall disclose—
  - (a) the amount of rescheduled loans and advances to banks, excluding those which have been overdue for more than 3 months and disclosed pursuant to subsection (2); and
  - (b) the percentage of such loans and advances to its total amount of loans and advances to banks.
- (6) An authorized institution shall disclose the amount of other assets, broken down into major classes of assets (including trade bills and debt securities), which have been overdue for—

- (a) more than 3 months but not more than 6 months;
- (b) more than 6 months but not more than one year; and
- (c) more than one year.

(7) An authorized institution shall disclose the amount of repossessed assets held as at the reporting date, and the accounting treatment of the related loans and advances.

### **101. Non-bank Mainland exposures**

An authorized institution shall disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the categories in the return for non-bank Mainland exposures submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the reporting period.

### **102. Currency risk**

(1) Subject to subsections (2) and (3), an authorized institution shall disclose its foreign currency exposures which arise from trading, non-trading and structural positions in accordance with the returns relating to foreign currency positions it submitted to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the reporting period.

(2) Where an authorized institution's net position (in absolute terms) in a particular foreign currency constitutes not less than 10% of the institution's total net position in all foreign currencies, the institution shall disclose in respect of the particular currency its—

- (a) spot assets;
- (b) spot liabilities;
- (c) forward purchases;
- (d) forward sales;
- (e) net options position; and
- (f) net long (or net short) position.

(3) For the purposes of subsection (2), an authorized institution shall calculate its net options position on the basis of—

- (a) the delta-weighted position of its options contracts; or
- (b) the institution's internal reporting method.

(4) An authorized institution shall disclose the basis referred to in subsection (3) on which it calculates its net options position.

(5) Where an authorized institution's net structural position (assets less liabilities) in a particular foreign currency constitutes (in absolute terms) not less than 10% of the institution's total net structural position in all foreign currencies, the institution shall disclose that net structural position in that particular foreign currency.

(6) For the purposes of this section, an authorized institution shall convert all foreign currency amounts into their equivalents in Hong Kong dollars as at the reporting date in determining whether its net position or net structural position in a foreign currency constitutes not less than 10% of its total net position or total net structural position, as the case may be, in all foreign currencies.

### **103. Liquidity**

(1) Subject to subsection (2), an authorized institution shall disclose its average liquidity ratio for the reporting period.

(2) For the purposes of subsection (1), an authorized institution shall calculate its average liquidity ratio as the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted by the institution to the Monetary Authority pursuant to section 63 of the Ordinance in respect of the reporting period.

## **Division 4—Consolidated group level disclosures**

### **104. Consolidated group level disclosures: general**

For the purposes of this Division, an authorized institution shall—

- (a) make consolidated group level disclosures based on the most recent consolidated accounts of the institution as at the publication date of the disclosure statement (being the most recent annual accounts or interim accounts, as the case requires, of the institution);
- (b) if the institution has a holding company and does not itself publish consolidated accounts—
  - (i) ensure that the information it is required to disclose under this Division is extracted from the corresponding information in the consolidated accounts of the group of companies of which the institution is a member; and
  - (ii) disclose the extracted information; and
- (c) if it does not publish interim accounts or only publishes unconsolidated information in its interim accounts, disclose the corresponding consolidated information from its most recent annual accounts.

**105. Capital and capital adequacy**

An authorized institution shall—

- (a) subject to paragraph (b), disclose its consolidated capital adequacy ratio calculated in accordance with—
  - (i) the document entitled “International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)” (published by the Basel Committee on Banking Supervision in June 2006); or
  - (ii) the Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and the Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy ratio of investment firms and credit institutions (recast),  
as at the date of its most recently available annual accounts or interim accounts;
- (b) if its consolidated capital adequacy ratio is not calculated in accordance with the document or Directive referred to in paragraph (a), disclose that fact with its consolidated capital adequacy ratio; and
- (c) disclose the total amount of shareholders’ funds (being capital and reserves).

**106. Other financial information**

(1) Subject to subsection (2), an authorized institution shall disclose the following consolidated information as at the date of its most recently available annual or interim accounts—

- (a) total assets;
- (b) total liabilities;
- (c) total loans and advances;
- (d) total customer deposits (or total deposits); and
- (e) pre-tax profit.

(2) Where an authorized institution’s total customer deposits referred to in subsection (1)(d) are not separately disclosed in its annual or interim accounts, the institution shall disclose—

- (a) the amount of its total deposits (including those from banks); and
- (b) the fact that the disclosure referred to in paragraph (a) is made pursuant to this subsection.

Joseph C. K. YAM  
Monetary Authority

24 October 2006

### **Explanatory Note**

These Rules are made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) as amended by the Banking (Amendment) Ordinance 2005 (19 of 2005) to prescribe the information to be disclosed to the general public by authorized institutions relating to their state of affairs, profit and loss or capital adequacy ratio. The Rules also prescribe the manner in which, times at which and periods during which such information shall be so disclosed. The Rules need to be read in conjunction with the Banking (Capital) Rules (L.N. 228 of 2006) to ascertain the meaning of many of the expressions used in the Rules.

2. Section 3 specifies the authorized institutions to which the various Parts of the Rules apply. Section 3(1) provides that Parts 2 and 4 apply to authorized institutions incorporated in Hong Kong except such institutions which are exempted under section 3(7). Section 3(2) provides that Part 3 applies to authorized institutions incorporated in Hong Kong except such institutions which are exempted under section 3(8). Section 3(6) provides that Part 8 applies to authorized institutions incorporated outside Hong Kong except such institutions which are exempted under section 3(9).

3. Part 2 specifies the general disclosure requirements applicable to authorized institutions incorporated in Hong Kong.

4. Part 3 specifies the disclosures an authorized institution incorporated in Hong Kong is required to make in respect of every 6 months period immediately after the close of the institution's financial year.

5. Part 4 specifies the disclosures an authorized institution incorporated in Hong Kong is required to make in respect of every financial year of the institution.

6. Parts 5, 6 and 7 specify the additional disclosures an authorized institution incorporated in Hong Kong is required to make in respect of its financial year if it uses the standardized (credit risk) approach (Part 5), basic approach (Part 6) or internal ratings-based approach (Part 7) to calculate its credit risk for non-securitization exposures.

7. Part 8 specifies the disclosures an authorized institution incorporated outside Hong Kong is required to make in respect of every financial year and in respect of every 6 months period immediately after the close of the institution's financial year.