

## **LEGISLATIVE COUNCIL BRIEF**

### **BANKING ORDINANCE (CHAPTER 155)**

### **BANKING (DISCLOSURE) (AMENDMENT) RULES 2014**

#### **INTRODUCTION**

The Acting Monetary Authority (“MA”)<sup>1</sup> has made the Banking (Disclosure) (Amendment) Rules 2014 (“BDAR 2014”) (**Annex**) to set out the disclosure requirements in relation to the capital buffers, liquidity coverage ratio (“LCR”) and leverage ratio of authorized institutions (“AIs”).

#### **JUSTIFICATIONS**

2. The Legislative Council enacted the Banking (Amendment) Ordinance 2012 in February 2012 to provide the legal framework for implementation in Hong Kong of the revised regulatory package of capital, liquidity and disclosure standards promulgated by the Basel Committee on Banking Supervision (“BCBS”) (known as “Basel III”), aiming to further enhance the resilience of banks and the banking system subsequent to the recent global financial crisis.

3. The MA made in October 2014 the Banking (Capital) (Amendment) Rules 2014 (“BCAR 2014”) and the Banking (Liquidity) Rules (“BLR”) for implementation of the second phase of Basel III (encompassing capital buffers and the LCR). The two sets of Rules will come into operation on 1 January 2015.

4. To this end, we need to introduce corresponding amendments to the Banking (Disclosure) Rules (“BDR”) (Cap. 155, sub. leg. M) to enhance the disclosure requirements for AIs in connection with the new

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<sup>1</sup> In this brief, MA refers to “Monetary Authority” or “Hong Kong Monetary Authority”, as the context so requires.

capital buffers, LCR, and the leverage ratio. Under the timeline set by the BCBS, the new disclosure requirements should take effect from 2015.

#### *Disclosures relating to Capital Buffers*

5. The BCBS has prescribed the following disclosure requirements in relation to the countercyclical capital buffer (“CCyB”), and the higher loss absorbency buffer requirement (“HLA”) for global systemically important banks (“G-SIBs”) –

- (a) in relation to the CCyB, banks must disclose their specific CCyB requirement calculated by reference to the CCyBs in effect in the respective jurisdictions in which they have private sector credit exposures; together with the geographic breakdown of their private sector credit exposures used in the calculation of their CCyB requirement; and
- (b) in relation to the HLA, banks with an overall size exceeding EUR 200 billion (as measured by the Basel III leverage ratio Exposure Measure), and those with sizes which are below the threshold but which have been classified as a G-SIB in the immediately preceding year, must disclose the 12 indicators specified by the BCBS for the purpose of assessing their systemic importance<sup>2</sup>.

6. Although there is as yet no AI, for which the MA is the home regulator, falling within the above G-SIB focused disclosure requirements, the MA is incorporating the requisite disclosure requirements into the BDR to prepare for any future situation where it becomes necessary to assess whether a locally incorporated AI meets the requirements for designation as a G-SIB.

#### *Disclosures relating to the LCR*

7. In respect of the LCR, the BCBS requires banks to disclose their LCR in the form of a common template supplemented with information

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<sup>2</sup> The 12 indicators are grouped into the five categories of systemic importance, viz. cross-jurisdictional activity (cross-jurisdictional claims; and cross-jurisdictional liabilities), size (total exposures), interconnectedness (intra-financial system assets; intra-financial system liabilities; and securities outstanding); substitutability/financial institution infrastructure (payment activity; assets under custody; and underwritten transactions in debt and equity markets), and complexity (notional amount of OTC derivatives; trading and AFS securities; and assets whose fair values cannot be determined by using observable measures such as market prices or models).

on their high quality liquid assets (“HQLA”) and their net cash outflows (including a breakdown of individual items of cash outflows and cash inflows). To facilitate users’ understanding of the disclosed information, banks are required to provide sufficient qualitative discussion covering –

- (a) the main drivers of their LCR levels and the evolution of the main factors contributing to their LCR calculation over time;
- (b) intra-period changes of their LCR levels as well as changes over time;
- (c) the composition of their HQLA;
- (d) concentration of funding sources;
- (e) their derivative exposures and potential collateral calls to which they may be subject;
- (f) the currency mismatch within their LCR;
- (g) a description of the degree of centralisation of liquidity management within, and interaction between, their banking group’s units; and
- (h) other inflows and outflows in the LCR calculation which a bank considers to be relevant for its liquidity profile but are not captured in the LCR common template.

8. As only “category 1 institutions” designated by the MA under the BLR<sup>3</sup> are required to compute the LCR, only category 1 institutions will be subject to the disclosure requirements associated with the LCR. AIs that are not so designated (i.e. “category 2 institutions” as defined in the BLR) are required to compute the liquidity maintenance ratio (“LMR”), a modified version of the existing Liquidity Ratio requirement under the Banking Ordinance. In this regard, category 2 institutions will continue to be subject to the existing liquidity ratio disclosure requirements in the BDR as modified to align with the LMR.

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<sup>3</sup> Pursuant to Rule 3(2) of the BLR, the MA may designate an AI as a category 1 institution in accordance with Parts 1 and 2 of Schedule 1 to the BLR.

*Disclosures relating to the leverage ratio*

9. The BCBS has similarly prescribed common templates for disclosures in respect of the leverage ratio. These templates require a bank to provide –

- (a) a comparison of its total accounting assets amounts and its leverage ratio exposure measure; and
- (b) a breakdown of the main components of its leverage ratio.

10. The templates are required to be supplemented by –

- (a) a qualitative reconciliation that details the source of material differences between the bank's total balance sheet assets in its financial statements and its on-balance sheet exposures in the standard disclosure template; and
- (b) disclosures on the key drivers of material changes in the bank's leverage ratio observed from the end of the previous reporting period to the end of the current reporting period.

*Other disclosures*

11. In addition, the MA proposes suitably refining certain disclosure requirements to better align them with recent updates in the prudential reporting requirements prescribed by the MA.

12. As with the existing disclosure framework, the proposed disclosures in respect of the leverage ratio and capital buffers are applicable only to locally incorporated AIs, whereas the disclosure requirements in respect of liquidity are applicable to all AIs, except for any AIs which have been exempted by the MA on the basis of the criteria specified in Part 1 of the BDR (by virtue of their relatively small size of operation in terms of total assets and total deposits from customers).

## THE SUBSIDIARY LEGISLATION

13. The amendments proposed in the BDAR 2014 are set out below

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- (a) New sections 24A (for interim disclosures) and 45A (for annual disclosures) are added to –
  - (i) outline the items that the BCBS requires banks to disclose regarding their leverage ratio (paragraphs 9 and 10 above);
  - (ii) prescribe the means of disclosure and the record maintenance requirements mirroring those for capital disclosures under sections 24(3) and (4); and
  - (iii) specify the bases of consolidation an AI should use for calculating its leverage ratio;
- (b) New sections 24B (for interim disclosures) and 45B (for annual disclosures) are added to reflect the information AIs must disclose in relation to their CCyB requirements (paragraph 5(a) above);
- (c) The existing sections 30, 51 and 103 relating to “liquidity” are repealed and replaced by new provisions to specify the required liquidity information disclosures for “category 1 institutions” and “category 2 institutions”.

To this end, for category 1 institutions, the new provisions will:

- (i) require disclosure of the LCR and related information in respect of the quarter ending on the interim or annual reporting date and the quarter immediately preceding (in the case of interim reporting) and the three quarters immediately preceding (in the case of annual reporting);
- (ii) specify the basis of calculation of the quarterly LCR. This ultimately should be the average value of an institution’s LCR calculated based on daily figures for the quarter concerned. In the transitional period preceding 1 January 2017, category 1 institutions are allowed to begin disclosure by reference to the average of month-end figures but from

January 2017 they must calculate their quarterly LCR by reference to the average of daily figures;

- (iii) outline the specific items that the BCBS requires banks to disclose (paragraph 7 above);
- (iv) prescribe the means of disclosure and record maintenance requirements that mirror those for capital disclosures under sections 24(3) and (4); and
- (v) specify the bases of disclosure applicable to category 1 institutions.

For category 2 institutions, the new provisions will set out requirements broadly similar to those under the current sections 30, 51 or 103 relating to the existing liquidity ratio with necessary changes to align with the disclosure of LMR;

- (d) A new section 45C is added to provide for the disclosure requirements which will become applicable to any AI in the event that it is designated by the MA as a G-SIB (paragraph 5(b) above); and
- (e) The existing sections 6(8), 6(9), 13(1)(b), 25, 28, 46, 49, 88(7), 88(8), 90(1)(a), 90(1)(b), 98 and 101 are updated such that they are in alignment with the current prudential reporting requirements of the MA (paragraph 11 above).

## **LEGISLATIVE TIMETABLE**

14. The BDAR 2014 will be published in the Gazette on 24 December 2014, and tabled at the Legislative Council at its sitting of 7 January 2015. Subject to negative vetting by the Legislative Council, the relevant provisions will come into operation on 31 March 2015.

## **IMPLICATIONS OF THE PROSPOSAL**

15. The amendments proposed in the BDAR 2014 are consistent with the BCBS Basel III disclosure requirements for international implementation. The enhanced disclosure requirements will help promote the exercise of market discipline in relation to banking activities

and hence should contribute to the sound risk management and the overall stability of the banking system.

16. The legislative proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposed amendments will not affect the current binding effect of the Banking Ordinance.

## **PUBLIC CONSULTATION**

17. We consulted the Legislative Council Panel on Financial Affairs on 7 July 2014 on the relevant legislative proposals to implement the second phase of Basel III in Hong Kong (including the corresponding disclosure requirements). To avoid subjecting the local banking sector to any disadvantage from being seen to lag behind other financial centres, Members considered it important that Hong Kong stay in line in terms of the pace of Basel III implementation vis-à-vis other major jurisdictions. In this regard, the BCBS requires the disclosure requirements associated with the second phase of Basel III to take effect from 2015. The proposed implementation of the BDAR 2014 is in line with the timeline set by the BCBS.

18. The MA has engaged the banking industry in formulating the BDAR 2014. In addition, in accordance with section 60A of the Banking Ordinance, the MA issued a draft of the relevant provisions to consult the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, the Hong Kong Association of Banks, and the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies, in November 2014. Responses indicated support for the amendments. Relevant technical or drafting comments have been addressed in the finalised rules as appropriate, and the intent of certain provisions has been clarified.

## **PUBLICITY**

19. We will issue a press release upon the issuance of this Legislative Council brief. The MA will issue a circular letter to all AIs. A spokesperson will be available to answer media and public enquiries.

## **ENQUIRIES**

20. Enquiries should be directed to Mr. Jackie Liu, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) at 2810 2067, or to Mr. Richard Chu, Head (Banking Policy), the Hong Kong Monetary Authority, at 2878 8276.

**Financial Services and the Treasury Bureau**  
**Hong Kong Monetary Authority**  
**23 December 2014**

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## Banking (Disclosure) (Amendment) Rules 2014

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

### 1. Commencement

These Rules come into operation on 31 March 2015.

### 2. Banking (Disclosure) Rules amended

The Banking (Disclosure) Rules (Cap. 155 sub. leg. M) are amended as set out in sections 3 to 23.

### 3. Section 2 amended (interpretation)

- (1) Section 2(1), Chinese text, definition of 聯營者, paragraph (b)—

**Repeal the full stop**

**Substitute a semicolon.**

- (2) Section 2(1)—

**Add in alphabetical order**

*“applicable JCCyB ratio* (適用 JCCyB 比率) has the meaning given by section 3N of the Capital Rules;

*capital conservation buffer ratio* (防護緩衝資本比率) has the meaning given by section 3E of the Capital Rules;

*countercyclical capital buffer ratio* (逆周期緩衝資本比率) has the meaning given by section 3E of the Capital Rules;

*derivative exposures* (衍生工具風險承擔) means the derivative exposures as described in the leverage ratio template;

*exposure measure* (風險承擔計量) means the exposure measure as described in the leverage ratio template;

*G-SIB* has the meaning given by section 3E of the Capital Rules;

*higher loss absorbency ratio* (較高吸收虧損能力比率) has the meaning given by section 3E of the Capital Rules;

*leverage ratio* (槓桿比率) means the Basel III Leverage Ratio as defined in the leverage ratio template;

*leverage ratio template* (槓桿比率模版) means the template on leverage ratio required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance;

*liquidity position return* (流動性狀況申報表) means the return relating to liquidity position required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance;

*Liquidity Rules* (《流動性規則》) means the Banking (Liquidity) Rules (L.N. 129 of 2014);

*off-balance sheet exposures* (資產負債表外風險承擔) means the off-balance sheet exposures as described in the leverage ratio template;

*on-balance sheet exposures* (資產負債表內風險承擔) means the on-balance sheet exposures as described in the leverage ratio template;

*private sector credit exposures* (私人機構信用風險承擔) has the meaning given by section 3N of the Capital Rules;

*securities financing transaction exposures* (證券融資交易風險承擔) means the SFT exposures as described in the leverage ratio template;”.

(3) Section 2(2)—

**Repeal**

“Section 2”

**Substitute**

“Subject to sections 30(8), 51(8) and 103(6), section 2”.

**4. Section 6 amended (medium and location of disclosure and issue of press release)**

(1) Section 6(8)—

**Repeal**

“Subject to sections 24(4) and (5) and 45(4) and (5),”

**Substitute**

“Subject to sections 24(4) and (5), 24A(5), 30(2), 45(4) and (5), 45A(5) and 51(2),”.

(2) Section 6(9)—

**Repeal**

“Subject to sections 24(4) and (5) and 45(4) and (5),”

**Substitute**

“Subject to sections 24(4) and (5), 24A(5), 30(2), 45(4) and (5), 45A(5) and 51(2),”.

**5. Section 13 amended (comparative information)**

Section 13(1)(b)—

**Repeal**

“profit and loss information and liquidity ratio”

**Substitute**

“profit and loss information disclosure and liquidity information disclosure”.

**6. Section 24 amended (capital disclosures)**

- (1) Section 24(8)(b)—

**Repeal**

“and”.

- (2) Section 24(8)(c)—

**Repeal the full stop**

**Substitute a semicolon.**

- (3) After section 24(8)(c)—

**Add**

“(d) capital conservation buffer ratio; and  
(e) (if applicable) higher loss absorbency ratio.”.

- (4) Section 24(9)(b)—

**Repeal**

“and”.

- (5) Section 24(9)(c)—

**Repeal the comma**

**Substitute a semicolon.**

- (6) After section 24(9)(c)—

**Add**

“(d) capital conservation buffer ratio; and  
(e) (if applicable) higher loss absorbency ratio.”.

- (7) Section 24(10)(b)—

**Repeal**

“and”.

- (8) Section 24(10)(c)—

**Repeal the comma**

**Substitute a semicolon.**

- (9) After section 24(10)(c)—

**Add**

“(d) capital conservation buffer ratio; and  
(e) (if applicable) higher loss absorbency ratio.”.

**7. Sections 24A and 24B added**

After section 24—

**Add****“24A. Leverage ratio disclosures**

- (1) An authorized institution must disclose the following information regarding its leverage position as set out in the leverage ratio template submitted by the institution to the Monetary Authority—
- (a) the exposure measure of the institution with breakdown into the following exposures—
    - (i) derivative exposures;
    - (ii) securities financing transaction exposures;
    - (iii) on-balance sheet exposures (other than those included in subparagraphs (i) and (ii));
    - (iv) off-balance sheet exposures (other than those included in subparagraphs (i) and (ii));
  - (b) the institution’s leverage ratio;
  - (c) the institution’s Tier 1 capital.

- (2) An authorized institution must disclose—
- (a) a summary comparison table reconciling the institution's balance sheet assets as stated in its interim financial statements with the exposure measure disclosed under subsection (1)(a); and
  - (b) (if the differences shown from the reconciliation are material) a detailed explanation for the differences.
- (3) An authorized institution must disclose an explanation of the key drivers of the material changes in its leverage ratio observed from the end of the reporting period immediately preceding the current reporting period to the end of the current reporting period.
- (4) An authorized institution must do either of the following—
- (a) include the disclosures under subsections (1), (2) and (3) in the interim financial statements published by it;
  - (b) provide in its interim financial statements a direct link to the relevant sections of its website where the disclosures referred to in paragraph (a) can be found.
- (5) An authorized institution must establish and maintain an archive of all disclosures made by it under subsections (1), (2) and (3) that relate to the reporting periods ending after 31 December 2014.
- (6) If an authorized institution is required under section 3C of the Capital Rules to calculate its capital adequacy ratio on a consolidated basis, the institution must disclose the following calculated on that basis—
- (a) the institution's leverage ratio;

- (b) the institution's Tier 1 capital and exposure measure.
- (7) If subsection (6) does not apply to an authorized institution, the institution must disclose the following calculated on a solo basis or solo-consolidated basis, as the case requires—
  - (a) the institution's leverage ratio;
  - (b) the institution's Tier 1 capital and exposure measure.

#### **24B. Countercyclical capital buffer ratio disclosures**

An authorized institution must disclose the following—

- (a) the institution's countercyclical capital buffer ratio;
- (b) the geographic breakdown of the sum of the institution's risk-weighted amounts (as represented by RWA<sub>j</sub> in Formula 1A under section 3O of the Capital Rules) in relation to each jurisdiction in which the institution has private sector credit exposures that is relevant to the calculation of the countercyclical capital buffer ratio;
- (c) the applicable JCCyB ratio for each jurisdiction referred to in paragraph (b) that is used by the institution for calculating the countercyclical capital buffer ratio.”.

#### **8. Section 25 amended (general disclosures)**

- (1) Section 25(1)—
 

**Repeal**

“cross-border”

**Substitute**

“international”.

- (2) Section 25(1)(b)—

**Repeal**

“banks, public sector entities and others”

**Substitute**

“banks, official sector, non-bank private sector and others”.

- (3) Section 25(5), definition of *major country or geographical segment*, paragraph (a)—

**Repeal**

“cross-border” (wherever appearing)

**Substitute**

“international”.

- (4) Section 25(5), definition of *recognized risk transfer*—

**Repeal paragraph (a)**

**Substitute**

“(a) means the risk transfer as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance; or”.

- (5) Section 25(5)—

**Repeal the definition of *cross-border claim*.**

- (6) Section 25(5)—

**Add in alphabetical order**

“*international claim* (國際債權) means the international claim as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance;”.

**9. Section 28 amended (non-bank Mainland exposures)**

- (1) Section 28, heading—

**Repeal**

“Non-bank Mainland exposures”

**Substitute**

“Mainland activities”.

- (2) Section 28—

**Repeal**

“return for non-bank Mainland exposures”

**Substitute**

“return of Mainland activities”.

**10. Section 30 substituted**

Section 30—

**Repeal the section**

**Substitute**

**“30. Liquidity information disclosures: general**

- (1) An authorized institution must do either of the following—

- (a) include in the interim financial statements published by it the disclosures under, as applicable—

- (i) section 30A(1) and (7); or  
(ii) section 30B(1) and (3);

- (b) provide in its interim financial statements a direct link to the relevant sections of its website where

the disclosures referred to in paragraph (a) can be found.

- (2) An authorized institution must establish and maintain an archive of all disclosures relating to the reporting periods ending after 31 December 2014 and made by it under the provisions referred to in subsection (1)(a).
- (3) If an authorized institution is required under rule 11(1) of the Liquidity Rules to calculate its LCR or LMR on a consolidated basis, the institution must disclose the average value of its LCR or LMR and the related information on that basis.
- (4) If subsection (3) does not apply to an authorized institution and the institution is required under rule 10(1)(b) of the Liquidity Rules to calculate its LCR or LMR on an unconsolidated basis, the institution must disclose the average value of its LCR or LMR and the related information on that basis.
- (5) If subsections (3) and (4) do not apply to an authorized institution, the institution must disclose the average value of its LCR or LMR and the related information on a Hong Kong office basis.
- (6) Disclosures by an authorized institution under this section, section 30A or 30B may be presented in Hong Kong dollars or in another currency.
- (7) Rules 2, 17 and 39 of the Liquidity Rules, if applicable, apply to the interpretation of this section and sections 30A and 30B as those rules apply to the interpretation of the Liquidity Rules.
- (8) If there is any conflict between subsection (7) and section 2(2) as to the interpretation of this section, or section 30A or 30B, subsection (7) is to prevail.”.

## 11. Sections 30A and 30B added

Part 3, after section 30—

### Add

#### “30A. Liquidity information disclosures: category 1 institution

- (1) An authorized institution that is a category 1 institution must disclose the average value of its LCR, and the information relating to that value, for—
  - (a) the quarter ending on an interim reporting date; and
  - (b) the quarter immediately preceding the quarter mentioned in paragraph (a).
- (2) For section 6(1)(ab), a category 1 institution must make the disclosures under subsection (1) by using the standard disclosure template specified by the Monetary Authority (*disclosure template*) to the extent that the template covers the relevant required disclosure items.
- (3) For subsection (1), a category 1 institution, subject to subsection (4), must calculate the average value of its LCR for each quarter during the interim reporting period, based on—
  - (a) the arithmetic mean of the institution’s LCR as at the end of each working day in the quarter; and
  - (b) the calculation methodology and instructions set out in the liquidity position return.
- (4) If there is any practical difficulty in complying with subsection (3)(a), a category 1 institution may calculate the average value of its LCR for each quarter preceding 1 January 2017, based on the arithmetic mean of its LCR as at each month-end in the quarter as reported in its liquidity position return submitted for each month during the quarter.

- (5) For subsection (1), a category 1 institution must disclose the average values of those components, as specified in the disclosure template, relating to the average value of its LCR, in unweighted and weighted amounts (as applicable), in the following manner—
- (a) the average value of each component is to be calculated, based on—
    - (i) for subsection (3)—
      - (A) the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at the end of each working day in each quarter during the interim reporting period; and
      - (B) the unweighted and weighted amounts of the component as derived according to the calculation methodology and instructions set out in the liquidity position return; or
    - (ii) for subsection (4), the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at each month-end derived from the information as reported in the institution's liquidity position return submitted for each month during the quarter;
  - (b) the weighted amount of HQLA is to be calculated as the amount after applying the haircuts as required under the Liquidity Rules;
  - (c) the unweighted amounts of cash inflows and cash outflows are to be calculated as the principal amounts of the various assets, liabilities and off-balance sheet items that are included in the

- calculation of the LCR as required under the Liquidity Rules;
- (d) the weighted amounts of cash inflows and cash outflows are to be calculated as the amounts after applying the inflow and outflow rates as required under the Liquidity Rules;
  - (e) the total HQLA and the total net cash outflows are to be disclosed as an adjusted value, where—
    - (i) the adjusted value of the total HQLA is the weighted amount of the total HQLA (net of haircuts) after taking into account any applicable ceiling on level 2B assets, and the sum of level 2A assets and level 2B assets, as required under the Liquidity Rules; and
    - (ii) the adjusted value of the total net cash outflows is the weighted amount of the total net cash outflows after taking into account any applicable ceiling on the total expected cash inflows as required under the Liquidity Rules.
- (6) For subsection (1), a category 1 institution must disclose, at a minimum, the following information that the institution considers to be significant to the calculation of its LCR—
- (a) the key drivers of material changes in the institution's LCR disclosed under subsection (1) and the evolution of the main factors contributing to the calculation of the institution's LCR over time;
  - (b) material changes in the institution's LCR, whether observed during the current reporting period or over time;

- (c) the composition of the institution's HQLA;
- (d) concentration in the sources from which the institution obtains funding for conducting its business;
- (e) the institution's exposures under its derivative contracts and the potential for the institution to be required to post collateral under the terms of the contracts;
- (f) currency mismatch in the institution's LCR;
- (g) descriptions of the degree of centralization of liquidity management and the interaction between members of the consolidated group;
- (h) other cash inflows and cash outflows in the LCR calculation—
  - (i) that are not covered by the disclosure template; but
  - (ii) that the institution considers to be relevant for understanding its liquidity profile.
- (7) A category 1 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.

**30B. Liquidity information disclosures: category 2 institution**

- (1) An authorized institution that is a category 2 institution must disclose the average value of its LMR for an interim reporting period.
- (2) For subsection (1), a category 2 institution must calculate the average value of its LMR for the interim reporting period, based on the arithmetic mean of the

average value of its LMR for each calendar month as reported in its liquidity position return submitted for the reporting period.

- (3) A category 2 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.”.

**12. Section 45 amended (capital disclosures)**

- (1) Section 45(8)(b)—

**Repeal**

“and”.

- (2) Section 45(8)(c)—

**Repeal the full stop**

**Substitute a semicolon.**

- (3) After section 45(8)(c)—

**Add**

“(d) capital conservation buffer ratio; and

(e) (if applicable) higher loss absorbency ratio.”.

- (4) Section 45(9)(b)—

**Repeal**

“and”.

- (5) Section 45(9)(c)—

**Repeal the comma**

**Substitute a semicolon.**

- (6) After section 45(9)(c)—

**Add**

- “(d) capital conservation buffer ratio; and  
 (e) (if applicable) higher loss absorbency ratio.”.

(7) Section 45(10)(b)—

**Repeal**

“and”.

(8) Section 45(10)(c)—

**Repeal the comma**

**Substitute a semicolon.**

(9) After section 45(10)(c)—

**Add**

- “(d) capital conservation buffer ratio; and  
 (e) (if applicable) higher loss absorbency ratio.”.

**13. Sections 45A, 45B and 45C added**

After section 45—

**Add**

**“45A. Leverage ratio disclosures**

- (1) An authorized institution must disclose the following information regarding its leverage position as set out in the leverage ratio template submitted by the institution to the Monetary Authority—
- (a) the exposure measure of the institution with breakdown into the following exposures—
    - (i) derivative exposures;
    - (ii) securities financing transaction exposures;
    - (iii) on-balance sheet exposures (other than those included in subparagraphs (i) and (ii));

- (iv) off-balance sheet exposures (other than those included in subparagraphs (i) and (ii));

(b) the institution’s leverage ratio;

(c) the institution’s Tier 1 capital.

(2) An authorized institution must disclose—

(a) a summary comparison table reconciling the institution’s balance sheet assets as stated in its annual financial statements with the exposure measure disclosed under subsection (1)(a); and

(b) (if the differences shown from the reconciliation are material) a detailed explanation for the differences.

(3) An authorized institution must disclose an explanation of the key drivers of the material changes in its leverage ratio observed from the end of the reporting period immediately preceding the current reporting period to the end of the current reporting period.

(4) An authorized institution must do either of the following—

(a) include the disclosures under subsections (1), (2) and (3) in the annual financial statements published by it;

(b) provide in its annual financial statements a direct link to the relevant sections of its website where the disclosures referred to in paragraph (a) can be found.

(5) An authorized institution must establish and maintain an archive of all disclosures made by it under subsections (1), (2) and (3) that relate to the reporting periods ending after 31 December 2014.

- (6) If an authorized institution is required under section 3C of the Capital Rules to calculate its capital adequacy ratio on a consolidated basis, the institution must disclose the following calculated on that basis—
- (a) the institution's leverage ratio;
  - (b) the institution's Tier 1 capital and exposure measure.
- (7) If subsection (6) does not apply to an authorized institution, the institution must disclose the following calculated on a solo basis or solo-consolidated basis, as the case requires—
- (a) the institution's leverage ratio;
  - (b) the institution's Tier 1 capital and exposure measure.

#### 45B. Countercyclical capital buffer ratio disclosures

An authorized institution must disclose the following—

- (a) the institution's countercyclical capital buffer ratio;
- (b) the geographic breakdown of the sum of the institution's risk-weighted amounts (as represented by RWA<sub>j</sub> in Formula 1A under section 3O of the Capital Rules) in relation to each jurisdiction in which the institution has private sector credit exposures that is relevant to the calculation of the countercyclical capital buffer ratio;
- (c) the applicable JCCyB ratio for each jurisdiction referred to in paragraph (b) that is used by the institution for calculating the countercyclical capital buffer ratio.

#### 45C. Disclosure requirements for G-SIBs

- (1) An authorized institution that was a G-SIB either in an annual reporting period (*current reporting period*) or in the immediately preceding annual reporting period must disclose the information regarding its systemic importance as set out in subsection (3).
- (2) An authorized institution that meets both of the following conditions must, if so directed by the Monetary Authority, disclose the information regarding its systemic importance as set out in subsection (3)—
  - (a) the institution does not fall within the description in subsection (1);
  - (b) the institution or, if applicable, its consolidation group had, as at 31 December immediately preceding the current reporting period, an exposure measure exceeding EUR 200 billion or equivalent (using the exchange rate prevailing on that day).
- (3) The information is, if applicable, the institution's—
  - (a) cross-jurisdictional activities;
  - (b) size;
  - (c) interconnectedness;
  - (d) substitutability (including the institution's role in the financial institution infrastructure); and
  - (e) complexity.
- (4) An authorized institution must base its disclosures on the position as at—
  - (a) the end of the immediately preceding financial year; or
  - (b) (if the Monetary Authority approves another date) such other date.

- (5) An authorized institution must do either of the following—
- (a) include the disclosures under subsection (1) or (2) in the annual financial statements published by it;
  - (b) provide in its annual financial statements a direct link to the relevant sections of its website where the disclosures referred to in paragraph (a) can be found.”.

**14. Section 46 amended (general disclosures)**

- (1) Section 46(7)—

**Repeal**

“cross-border”

**Substitute**

“international”.

- (2) Section 46(7)(b)—

**Repeal**

“banks, public sector entities and others”

**Substitute**

“banks, official sector, non-bank private sector and others”.

- (3) Section 46(11), definition of *major country or geographical segment*, paragraph (a)—

**Repeal**

“cross-border” (wherever appearing)

**Substitute**

“international”.

- (4) Section 46(11), definition of *recognized risk transfer*—

**Repeal paragraph (a)**

**Substitute**

“(a) means the risk transfer as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance; or”.

- (5) Section 46(11)—

**Repeal the definition of *cross-border claim*.**

- (6) Section 46(11)—

**Add in alphabetical order**

“*international claim* (國際債權) means the international claim as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance;”.

**15. Section 49 amended (non-bank Mainland exposures)**

- (1) Section 49, heading—

**Repeal**

“Non-bank Mainland exposures”

**Substitute**

“Mainland activities”.

- (2) Section 49—

**Repeal**

“return for non-bank Mainland exposures”

**Substitute**

“return of Mainland activities”.

**16. Section 51 substituted**

Section 51—

**Repeal the section****Substitute****“51. Liquidity information disclosures: general**

- (1) An authorized institution must do either of the following—
  - (a) include in the annual financial statements published by it the disclosures under, as applicable—
    - (i) section 51A(1) and (7); or
    - (ii) section 51B(1) and (3);
  - (b) provide in its annual financial statements a direct link to the relevant sections of its website where the disclosures referred to in paragraph (a) can be found.
- (2) An authorized institution must establish and maintain an archive of all disclosures relating to the reporting periods ending after 31 December 2014 and made by it under the provisions referred to in subsection (1)(a).
- (3) If an authorized institution is required under rule 11(1) of the Liquidity Rules to calculate its LCR or LMR on a consolidated basis, the institution must disclose the average value of its LCR or LMR and the related information on that basis.
- (4) If subsection (3) does not apply to an authorized institution and the institution is required under rule 10(1)(b) of the Liquidity Rules to calculate its LCR or LMR on an unconsolidated basis, the institution must disclose the average value of its LCR or LMR and the related information on that basis.
- (5) If subsections (3) and (4) do not apply to an authorized institution, the institution must disclose the average

value of its LCR or LMR and the related information on a Hong Kong office basis.

- (6) Disclosures by an authorized institution under this section, section 51A or 51B may be presented in Hong Kong dollars or in another currency.
- (7) Rules 2, 17 and 39 of the Liquidity Rules, if applicable, apply to the interpretation of this section and sections 51A and 51B as those rules apply to the interpretation of the Liquidity Rules.
- (8) If there is any conflict between subsection (7) and section 2(2) as to the interpretation of this section, or section 51A or 51B, subsection (7) is to prevail.”.

**17. Sections 51A and 51B added**

After section 51—

**Add****“51A. Liquidity information disclosures: category 1 institution**

- (1) An authorized institution that is a category 1 institution must disclose the average value of its LCR, and the information relating to that value, for—
  - (a) the quarter ending on an annual reporting date; and
  - (b) each of the 3 quarters immediately preceding the quarter mentioned in paragraph (a).
- (2) For section 6(1)(ab), a category 1 institution must make the disclosures under subsection (1) by using the standard disclosure template specified by the Monetary Authority (*disclosure template*) to the extent that the template covers the relevant required disclosure items.

- (3) For subsection (1), a category 1 institution, subject to subsection (4), must calculate the average value of its LCR for each quarter during the annual reporting period, based on—
- (a) the arithmetic mean of the institution's LCR as at the end of each working day in the quarter; and
  - (b) the calculation methodology and instructions set out in the liquidity position return.
- (4) If there is any practical difficulty in complying with subsection (3)(a), a category 1 institution may calculate the average value of its LCR for each quarter preceding 1 January 2017, based on the arithmetic mean of its LCR as at each month-end in the quarter as reported in its liquidity position return submitted for each month during the quarter.
- (5) For subsection (1), a category 1 institution must disclose the average values of those components, as specified in the disclosure template, relating to the average value of its LCR, in unweighted and weighted amounts (as applicable), in the following manner—
- (a) the average value of each component is to be calculated, based on—
    - (i) for subsection (3)—
      - (A) the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at the end of each working day in each quarter during the annual reporting period; and
      - (B) the unweighted and weighted amounts of the component as derived according to the calculation methodology and

- instructions set out in the liquidity position return; or
  - (ii) for subsection (4), the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at each month-end derived from the information as reported in the institution's liquidity position return submitted for each month during the quarter;
- (b) the weighted amount of HQLA is to be calculated as the amount after applying the haircuts as required under the Liquidity Rules;
  - (c) the unweighted amounts of cash inflows and cash outflows are to be calculated as the principal amounts of the various assets, liabilities and off-balance sheet items that are included in the calculation of the LCR as required under the Liquidity Rules;
  - (d) the weighted amounts of cash inflows and cash outflows are to be calculated as the amounts after applying the inflow and outflow rates as required under the Liquidity Rules;
  - (e) the total HQLA and the total net cash outflows are to be disclosed as an adjusted value, where—
    - (i) the adjusted value of the total HQLA is the weighted amount of the total HQLA (net of haircuts) after taking into account any applicable ceiling on level 2B assets, and the sum of level 2A assets and level 2B assets, as required under the Liquidity Rules; and
    - (ii) the adjusted value of the total net cash outflows is the weighted amount of the total net cash outflows after taking into account

- any applicable ceiling on the total expected cash inflows as required under the Liquidity Rules.
- (6) For subsection (1), a category 1 institution must disclose, at a minimum, the following information that the institution considers to be significant to the calculation of its LCR—
- (a) the key drivers of material changes in the institution's LCR disclosed under subsection (1) and the evolution of the main factors contributing to the calculation of the institution's LCR over time;
  - (b) material changes in the institution's LCR, whether observed during the current reporting period or over time;
  - (c) the composition of the institution's HQLA;
  - (d) concentration in the sources from which the institution obtains funding for conducting its business;
  - (e) the institution's exposures under its derivative contracts and the potential for the institution to be required to post collateral under the terms of the contracts;
  - (f) currency mismatch in the institution's LCR;
  - (g) descriptions of the degree of centralization of liquidity management and the interaction between members of the consolidated group;
  - (h) other cash inflows and cash outflows in the LCR calculation—
    - (i) that are not covered by the disclosure template; but

- (ii) that the institution considers to be relevant for understanding its liquidity profile.
- (7) A category 1 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.

**51B. Liquidity information disclosures: category 2 institution**

- (1) An authorized institution that is a category 2 institution must disclose the average value of its LMR for an annual reporting period.
  - (2) For subsection (1), a category 2 institution must calculate the average value of its LMR for the annual reporting period, based on the arithmetic mean of the average value of its LMR for each calendar month as reported in its liquidity position return submitted for the reporting period.
  - (3) A category 2 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.”.
- 18. Section 88 amended (medium and location of disclosure and issue of press release)**
- (1) Section 88(7)—
 

**Repeal**

“Where an authorized institution”

**Substitute**

“Subject to section 103(2), if an authorized institution”.

- (2) Section 88(8)—

**Repeal**

“Where an authorized institution”

**Substitute**

“Subject to section 103(2), if an authorized institution”.

**19. Section 90 amended (comparative information)**

- (1) Section 90(1)(a)—

**Repeal**

“liquidity ratio disclosure”

**Substitute**

“liquidity information disclosures”.

- (2) Section 90(1)(b)—

**Repeal**

“liquidity ratio disclosure”

**Substitute**

“liquidity information disclosures”.

**20. Section 98 amended (general disclosures)**

- (1) Section 98(1)—

**Repeal**

“cross-border”

**Substitute**

“international”.

- (2) Section 98(1)(b)—

**Repeal**

“banks, public sector entities and others”

**Substitute**

“banks, official sector, non-bank private sector and others”.

- (3) Section 98(4), definition of
- major country or geographical segment*
- , paragraph (a)—

**Repeal**

“cross-border” (wherever appearing)

**Substitute**

“international”.

- (4) Section 98(4), definition of
- recognized risk transfer*
- 

**Repeal paragraph (a)****Substitute**

“(a) means the risk transfer as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance; or”.

- (5) Section 98(4)—

**Repeal the definition of *cross-border claim*.**

- (6) Section 98(4)—

**Add in alphabetical order**

“*international claim* (國際債權) means the international claim as described in the return of international banking statistics required to be submitted by an authorized institution to the Monetary Authority under section 63(2) of the Ordinance;”.

**21. Section 101 amended (non-bank Mainland exposures)**

- (1) Section 101, heading—

**Repeal**

**“Non-bank Mainland exposures”****Substitute****“Mainland activities”.**

- (2) Section 101—

**Repeal**

“return for non-bank Mainland exposures”

**Substitute**

“return of Mainland activities”.

**22. Section 103 substituted**

Section 103—

**Repeal the section****Substitute****“103. Liquidity information disclosures: general**

- (1) An authorized institution must do either of the following—
- (a) include in the financial statements relating to the reporting period published by it the disclosures under, as applicable—
    - (i) section 103A(1) and (7); or
    - (ii) section 103B(1) and (3);
  - (b) provide in the financial statements relating to the reporting period a direct link to the relevant sections of its website where the disclosures referred to in paragraph (a) can be found.
- (2) An authorized institution must establish and maintain an archive of all disclosures relating to the reporting periods

ending after 31 December 2014 and made by it under the provisions referred to in subsection (1)(a).

- (3) An authorized institution must disclose the average value of its LCR or LMR and the related information on a Hong Kong office basis.
- (4) Disclosures by an authorized institution under this section, section 103A or 103B may be presented in Hong Kong dollars or in another currency.
- (5) Rules 2, 17 and 39 of the Liquidity Rules, if applicable, apply to the interpretation of this section and sections 103A and 103B as those rules apply to the interpretation of the Liquidity Rules.
- (6) If there is any conflict between subsection (5) and section 2(2) as to the interpretation of this section, or section 103A or 103B, subsection (5) is to prevail.”

**23. Sections 103A and 103B added**

Part 8, Division 3, after section 103—

**Add****“103A. Liquidity information disclosures: category 1 institution**

- (1) An authorized institution that is a category 1 institution must disclose the average value of its LCR, and the information relating to that value, for—
- (a) (if the disclosure relates to an interim reporting period)—
    - (i) the quarter ending on the interim reporting date; and
    - (ii) the quarter immediately preceding the quarter mentioned in subparagraph (i); or

- (b) (if the disclosure relates to an annual reporting period)—
  - (i) the quarter ending on the annual reporting date; and
  - (ii) each of the 3 quarters immediately preceding the quarter mentioned in subparagraph (i).
- (2) For section 6(1)(ab), a category 1 institution must make the disclosures under subsection (1) by using the standard disclosure template specified by the Monetary Authority (*disclosure template*) to the extent that the template covers the relevant required disclosure items.
- (3) For subsection (1), a category 1 institution, subject to subsection (4), must calculate the average value of its LCR for each quarter during the reporting period, based on—
  - (a) the arithmetic mean of the institution's LCR as at the end of each working day in the quarter; and
  - (b) the calculation methodology and instructions set out in the liquidity position return.
- (4) If there is any practical difficulty in complying with subsection (3)(a), a category 1 institution may calculate the average value of its LCR for each quarter preceding 1 January 2017, based on the arithmetic mean of its LCR as at each month-end in the quarter as reported in its liquidity position return submitted for each month during the quarter.
- (5) For subsection (1), a category 1 institution must disclose the average values of those components, as specified in the disclosure template, relating to the average value of its LCR, in unweighted and weighted amounts (as applicable), in the following manner—

- (a) the average value of each component is to be calculated, based on—
  - (i) for subsection (3)—
    - (A) the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at the end of each working day in each quarter during the reporting period; and
    - (B) the unweighted and weighted amounts of the component as derived according to the calculation methodology and instructions set out in the liquidity position return; or
  - (ii) for subsection (4), the arithmetic mean of the component, in unweighted and weighted amounts (as applicable), as at each month-end derived from the information as reported in the institution's liquidity position return submitted for each month during the quarter;
- (b) the weighted amount of HQLA is to be calculated as the amount after applying the haircuts as required under the Liquidity Rules;
- (c) the unweighted amounts of cash inflows and cash outflows are to be calculated as the principal amounts of the various assets, liabilities and off-balance sheet items that are included in the calculation of the LCR as required under the Liquidity Rules;
- (d) the weighted amounts of cash inflows and cash outflows are to be calculated as the amounts after applying the inflow and outflow rates as required under the Liquidity Rules;

- (e) the total HQLA and the total net cash outflows are to be disclosed as an adjusted value, where—
  - (i) the adjusted value of the total HQLA is the weighted amount of the total HQLA (net of haircuts) after taking into account any applicable ceiling on level 2B assets, and the sum of level 2A assets and level 2B assets, as required under the Liquidity Rules; and
  - (ii) the adjusted value of the total net cash outflows is the weighted amount of the total net cash outflows after taking into account any applicable ceiling on the total expected cash inflows as required under the Liquidity Rules.
- (6) For subsection (1), a category 1 institution must disclose, at a minimum, the following information that the institution considers to be significant to the calculation of its LCR—
  - (a) the key drivers of material changes in the institution's LCR disclosed under subsection (1) and the evolution of the main factors contributing to the calculation of the institution's LCR over time;
  - (b) material changes in the institution's LCR, whether observed during the current reporting period or over time;
  - (c) the composition of the institution's HQLA;
  - (d) concentration in the sources from which the institution obtains funding for conducting its business;

- (e) the institution's exposures under its derivative contracts and the potential for the institution to be required to post collateral under the terms of the contracts;
- (f) currency mismatch in the institution's LCR;
- (g) descriptions of the degree of centralization of liquidity management and the interaction between members of the consolidated group;
- (h) other cash inflows and cash outflows in the LCR calculation—
  - (i) that are not covered by the disclosure template; but
  - (ii) that the institution considers to be relevant for understanding its liquidity profile.
- (7) A category 1 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.

**103B. Liquidity information disclosures: category 2 institution**

- (1) An authorized institution that is a category 2 institution must disclose the average value of its LMR for a reporting period.
- (2) For subsection (1), a category 2 institution must calculate the average value of its LMR for the reporting period, based on the arithmetic mean of the average value of its LMR for each calendar month as reported in its liquidity position return submitted for the reporting period.

- (3) A category 2 institution must disclose information relating to the institution's approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management."

Acting Monetary Authority

2014

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### Explanatory Note

These Rules are made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) to amend the Banking (Disclosure) Rules (Cap. 155 sub. leg. M) (*principal Rules*).

2. The main purpose of the Rules is to incorporate into the principal Rules—
  - (a) amendments necessitated by the new disclosure requirements contained in the document entitled "Basel III leverage ratio framework and disclosure requirements" published by the Basel Committee on Banking Supervision (*Basel Committee*) in January 2014;
  - (b) amendments necessitated by the new disclosure requirements contained in the document entitled "Liquidity coverage ratio disclosure standards" published by the Basel Committee in January 2014 (revised in March 2014);
  - (c) amendments necessitated by the additional disclosure requirements relating to capital buffers required under the Banking (Capital) Rules (Cap. 155 sub. leg. L), i.e.—
    - (i) the capital conservation buffer ratio;
    - (ii) the countercyclical capital buffer ratio; and
    - (iii) (for an authorized institution considered as systemically important in a global or domestic context) the higher loss absorbency ratio; and
  - (d) amendments necessitated by some recent updates in prudential reporting requirements.
3. The Rules come into operation on 31 March 2015.