L.N. 138 of 2011

Banking (Disclosure) (Amendment) Rules 2011

Contents

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(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 DTC Association)

1. Commencement

These Rules come into operation on 1 January 2012.

2. Banking (Disclosure) Rules amended

The Banking (Disclosure) Rules (Cap. 155 sub. leg. M) are amended as set out in sections 3 to 13.

3. Section 2 amended (interpretation)

Section 2(1)—

Add in alphabetical order

"***exposure type*** (風險承擔類型), in relation to the underlying exposures in securitization transactions, or the outstanding exposures held by an authorized institution with the intention of transferring those exposures into securitization transactions, includes—

(a) credit card receivables, home equity loans and auto loans; and

(b) residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and collateralized debt obligations;

protection provider (保障提供者), in relation to a securitization transaction, means the provider of protection against the credit risk in respect of an exposure to the securitization transaction, whether by means of any of the following or any combination of the following—

(a) insurance;

(b) a guarantee;

(c) a credit derivative contract;”.

4. Section 5 amended (disclosure policy)

Section 5(a)—

Repeal subparagraph (i)

Substitute

“(i) the approach used by the institution—

(A) 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

(B) to ensure that such information it discloses is relevant and adequate to convey an accurate impression of the institution’s actual risk profile; and”.

5. Section 59 amended (credit risk mitigation)

Section 59—

Repeal subsection (3)

Substitute

“(3) An authorized institution—

(a) is not required to make disclosures under this section in respect of credit risk mitigation that is treated as part of securitization transactions; and

(b) must make disclosures under section 60 in respect of such credit risk mitigation.”.

6. Section 60 amended (asset securitization)

(1) Section 60—

Repeal subsections (1) and (2)

Substitute

“(1) Subject to subsection (2), an authorized institution must disclose, in respect of securitization transactions to which it is a party and in respect of securitization exposures assumed by it—

(a) the institution’s objectives in relation to securitizing the underlying exposures in the securitization transactions, including—

(i) 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 transactions; and

(ii) the types of risks assumed and retained through re-securitization transactions;

(b) the nature of risks, other than credit risk, inherent in the underlying exposures that have been securitized by the institution;

(c) the roles played by the institution in the securitization transactions (including as originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider or protection provider) and the extent of the institution’s involvement in each of them;

(d) the regulatory capital approaches that the institution uses for its securitization exposures assumed or retained through the roles played by the institution in the securitization transactions and the type of exposures to which each approach applies;

(e) 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) the methods and key assumptions applied for valuing the securitization exposures assumed by the institution (including the methods and key assumptions applied for valuing the re-securitization exposures assumed by the institution if these differ from those applied for valuing the securitization exposures assumed by the institution, and any significant changes since the immediately preceding annual reporting period and the impact of those changes);

(iv) the treatment of synthetic securitization transactions if this is not covered by other accounting policies;

(v) the methods and key assumptions applied for valuing exposures that the institution holds with the intention of transferring them into securitization transactions and an indication of whether the exposures are booked in the institution's banking book or trading book; and

(vi) the policies for recognizing liabilities on the balance sheet of the institution for arrangements that could require the institution to provide financial support for the underlying exposures that have been securitized by the institution;

(f) a description of the processes in place to monitor changes in the credit risk and market risk for securitization exposures assumed by the institution (including a description of the processes to monitor how the behaviour of the underlying exposures in the securitization transactions impacts the institution's securitization exposures and, if those processes differ for re-securitization exposures assumed by the institution, a description of how they differ);

(g) a description of the institution's policy governing the use of credit risk mitigation to mitigate the risks of securitization exposures retained (including the institution's policy governing the use of credit risk mitigation to mitigate the risks of re-securitization exposures retained if this differs from its policy governing the use of credit risk mitigation to mitigate the risks of securitization exposures retained);

(h) a list of the types of special purpose entities, if any, that the institution has used to securitize exposures acquired from third parties and an indication of the extent and type of the institution's exposures, both on-balance sheet exposures and off-balance sheet exposures, to those special purpose entities;

(i) a list of the related companies (within the meaning of section 35 of the Capital Rules) that the institution manages or advises and that invest in the securitization exposures issued by—

(i) the institution; or

(ii) the special purpose entities of which the institution is a sponsor;

(j) the names of the ECAIs the institution used in relation to the securitization exposures in respect of which the institution uses the STC(S) approach during the annual reporting period and the types of securitization exposures for which each such ECAI was so used;

(k) an explanation of significant changes to any of the quantitative disclosures (including an explanation of those related to the amounts of exposures that the institution holds with the intention of transferring them into securitization transactions and the movements of exposures between the institution's banking book and trading book) since the last reporting period;

(l) the total outstanding amount of underlying exposures in securitization transactions (regardless of whether the exposures in a traditional securitization transaction have been excluded from the calculation of the risk-weighted amount of the institution's credit exposures under Part 4, 5, 6 or 7 of the Capital Rules in accordance with section 229(1)(a) of those Rules and regardless of whether the risk-weighted amount of the exposures in a synthetic securitization transaction have been calculated in accordance with sections 229(1)(b) and 243, or sections 229(1)(b) and 255, of those Rules), broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(m) the total outstanding amount of underlying exposures in securitization transactions of which the institution is a sponsor, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(n) in the case of underlying exposures in securitization transactions (regardless of whether the exposures in a traditional securitization transaction have been excluded from the calculation of the risk-weighted amount of the institution's credit exposures under Part 4, 5, 6 or 7 of the Capital Rules in accordance with section 229(1)(a) of those Rules and regardless of whether the risk-weighted amount of the exposures in a synthetic securitization transaction have been calculated in accordance with sections 229(1)(b) and 243, or sections 229(1)(b) and 255, of those Rules)—

(i) the amount of impaired or overdue exposures securitized, broken down by exposure type; and

(ii) the losses recognized by the institution during the annual reporting period, broken down by exposure type;

(o) the amount of outstanding exposures that the institution holds with the intention of transferring them into securitization transactions, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(p) a summary of the securitization transactions the institution has entered into during the annual reporting period, including—

(i) the amount of underlying exposures that have been securitized, broken down by exposure type; and

(ii) the amount of recognized gain or loss on sale of underlying exposures that have been securitized, broken down by exposure type,

and shown separately for the exposures booked in the institution's banking book and trading book;

(q) the total outstanding amount of the institution's on-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(r) the total outstanding amount of the institution's off-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(s) the total amount of securitization exposures (excluding re-securitization exposures) in respect of which the institution uses the STC(S) approach and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(t) the total amount of re-securitization exposures in respect of which the institution uses the STC(S) approach and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(u) the securitization exposures that have been fully deducted from the institution's core capital, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(v) the credit-enhancing interest-only strips and other exposures that have been deducted from the institution's core capital and supplementary capital, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(w) in the case of securitization transactions that are subject to an early amortization provision and in which the institution is the originating institution—

(i) the total principal amount of the drawn balances of the underlying exposures attributed to the originator's and investors' interests, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(ii) 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 exposure type, and shown separately for the exposures booked in the institution's banking book and trading book; and

(iii) 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 exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(x) the total amount of re-securitization exposures of the institution, broken down into—

(i) exposures to which credit risk mitigation is applied and those to which it is not applied; and

(ii) exposures to guarantors, broken down by credit-worthiness categories or names of the guarantors,

each shown separately for the exposures booked in the institution's banking book and trading book;

(y) the total outstanding amount of underlying exposures in securitization transactions in relation to which the institution has retained some securitization exposures and calculates the risk-weighted amount of those exposures under Part 8 of the Capital Rules, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(z) the total amount of the institution's securitization exposures booked in the institution's trading book that are subject to the comprehensive risk charge, the amount of comprehensive risk charge for those exposures as calculated under Part 8 of the Capital Rules, and a breakdown of that amount of comprehensive risk charge into default risk, credit migration risk, correlation risk and other material risk factors;

(za) the total amount of the institution's securitization exposures that are subject to Part 8 of the Capital Rules for the calculation of the specific risk for the exposures (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach; and

(zb) the capital requirements for the securitization exposures of the institution that are subject to Part 8 of the Capital Rules (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach.

(2) The disclosures required under subsection (1)(a), (b), (c), (d), (e), (f), (g), (h) and (i) must, for information purposes, be shown separately in relation to the authorized institution's securitization exposures booked in the institution's banking book and trading book.".

(2) Section 60—

Repeal subsections (3), (4) and (5).

7. Section 61 amended (market risk)

(1) Section 61(2)(b)—

Repeal subparagraph (i)

Substitute

"(i) interest rate exposures (including options exposures if applicable), including the separate disclosure of the capital requirements incurred by the institution against securitization positions and non-securitization positions;".

(2) Section 61(3)(d)(iii)—

Repeal

"processes; and"

Substitute

"processes;".

(3) Section 61(3)—

Repeal paragraph (e)

Substitute

"(e) in respect of the incremental risk charge and the comprehensive risk charge calculated by the institution using internal models, disclose a description of the methodologies used and the risks measured through the use of the internal models, including—

(i) the approach used by the institution to determine liquidity horizons;

(ii) the methodologies used to achieve a capital assessment for market risk that is consistent with a soundness standard comparable to that for the IRB approach for credit risk; and

(iii) the approaches used in the validation of the models; and".

(4) After section 61(3)(e)—

Add

"(f) 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;

(ii) the institution's average, high and low stressed VaR for the annual reporting period and the stressed VaR as at the last trading day of the annual reporting period;

(iii) the institution's average, high and low incremental and comprehensive risk charges for the annual reporting period and the incremental and comprehensive risk charges as at the last trading day of the annual reporting period; and

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

8. Section 69 amended (asset securitization)

(1) Section 69—

Repeal subsection (1)

Substitute

"(1) Subject to subsection (1A), an authorized institution must disclose, in respect of securitization transactions to which it is a party and in respect of securitization exposures assumed by it—

(a) the roles played by the institution in the securitization transactions (including as investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider or protection provider) and the extent of the institution's involvement in each of them;

(b) a summary of the institution's accounting policies for securitization transactions, including the methods and key assumptions applied for valuing the securitization exposures assumed by the institution (including the methods and key assumptions applied for valuing the re-securitization exposures assumed by the institution if these differ from those applied for valuing the securitization exposures assumed by the institution, and any significant changes since the immediately preceding annual reporting period and the impact of those changes);

(c) a description of the processes in place to monitor changes in the credit risk and market risk for securitization exposures assumed by the institution (including a description of the processes to monitor how the behaviour of the underlying exposures in the securitization transactions impacts the institution's securitization exposures and, if those processes differ for re-securitization exposures assumed by the institution, a description of how they differ);

(d) the names of the ECAIs the institution used in relation to the securitization exposures in respect of which the institution uses the STC(S) approach during the annual reporting period and the types of securitization exposures for which each such ECAI was so used;

(e) an explanation of significant changes to any of the quantitative disclosures (including an explanation of those related to the movements of exposures between the institution's banking book and trading book) since the last reporting period;

(f) the total outstanding amount of the institution's on-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(g) the total outstanding amount of the institution's off-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(h) the total amount of securitization exposures (excluding re-securitization exposures) in respect of which the institution uses the STC(S) approach and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(i) the total amount of re-securitization exposures in respect of which the institution uses the STC(S) approach and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(j) the total amount of re-securitization exposures of the institution, broken down into—

 (i) exposures to which credit risk mitigation is applied and those to which it is not applied; and

 (ii) exposures to guarantors, broken down by credit-worthiness categories or names of the guarantors,

each shown separately for the exposures booked in the institution's banking book and trading book;

(k) the securitization exposures that the institution has deducted from its core capital and supplementary capital, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(l) the total amount of the institution's securitization exposures booked in the institution's trading book that are subject to the comprehensive risk charge, the amount of comprehensive risk charge for those exposures as calculated under Part 8 of the Capital Rules, and a breakdown of that amount of comprehensive risk charge into default risk, credit migration risk, correlation risk and other material risk factors;

(m) the total amount of the institution's securitization exposures that are subject to Part 8 of the Capital Rules for the calculation of the specific risk for the exposures (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach; and

(n) the capital requirements for the securitization exposures of the institution that are subject to Part 8 of the Capital Rules (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach.".

(2) After section 69(1)—

Add

"(1A) The disclosures required under subsection (1)(a), (b) and (c) must, for information purposes, be shown separately in relation to the authorized institution's securitization exposures booked in the institution's banking book and trading book.".

9. Section 70 amended (market risk)

(1) Section 70(2)(b)—

Repeal subparagraph (i)

Substitute

"(i) interest rate exposures (including options exposures if applicable), including the separate disclosure of the capital requirements incurred by the institution against securitization positions and non-securitization positions;".

(2) Section 70(3)(d)(iii)—

Repeal

"processes; and"

Substitute

"processes;".

(3) Section 70(3)—

Repeal paragraph (e)

Substitute

"(e) in respect of the incremental risk charge and the comprehensive risk charge calculated by the institution using internal models, disclose a description of the methodologies used and the risks measured through the use of the internal models, including—

(i) the approach used by the institution to determine liquidity horizons;

(ii) the methodologies used to achieve a capital assessment for market risk that is consistent with a soundness standard comparable to that for the IRB approach for credit risk; and

(iii) the approaches used in the validation of the models; and".

(4) After section 70(3)(e)—

Add

"(f) 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;

(ii) the institution's average, high and low stressed VaR for the annual reporting period and the stressed VaR as at the last trading day of the annual reporting period;

(iii) the institution's average, high and low incremental and comprehensive risk charges for the annual reporting period and the incremental and comprehensive risk charges as at the last trading day of the annual reporting period; and

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

10. Section 78 amended (credit risk: disclosures on risk assessment)

Section 78(3)(a), Chinese text—

Repeal

"根據"

Substitute

"根據第".

11. Section 81 amended (credit risk mitigation)

Section 81—

Repeal subsection (3)

Substitute

"(3) An authorized institution—

(a) is not required to make disclosures under this section in respect of credit risk mitigation that is treated as part of securitization transactions; and

(b) must make disclosures under section 82 in respect of such credit risk mitigation.".

12. Section 82 amended (asset securitization)

(1) Section 82—

Repeal subsections (1) and (2)

Substitute

"(1) Subject to subsection (2), an authorized institution must disclose, in respect of securitization transactions to which it is a party and in respect of securitization exposures assumed by it—

(a) the institution's objectives in relation to securitizing the underlying exposures in the securitization transactions, including—

(i) 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 transactions; and

(ii) the types of risks assumed and retained through re-securitization transactions;

(b) the nature of risks, other than credit risk, inherent in the underlying exposures that have been securitized by the institution;

(c) the roles played by the institution in the securitization transactions (including as originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider or protection provider) and the extent of the institution's involvement in each of them;

(d) the regulatory capital approaches that the institution uses for its securitization exposures assumed or retained through the roles played by the institution in the securitization transactions and the type of exposures to which each approach applies;

(e) 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) the methods and key assumptions applied for valuing the securitization exposures assumed by the institution (including the methods and key assumptions applied for valuing the re-securitization exposures assumed by the institution if these differ from those applied for valuing the securitization exposures assumed by the institution, and any significant changes since the immediately preceding annual reporting period and the impact of those changes);

(iv) the treatment of synthetic securitization transactions if this is not covered by other accounting policies;

(v) the methods and key assumptions applied for valuing exposures that the institution holds with the intention of transferring them into securitization transactions and an indication of whether the exposures are booked in the institution's banking book or trading book; and

(vi) the policies for recognizing liabilities on the balance sheet of the institution for arrangements that could require the institution to provide financial support for the underlying exposures that have been securitized by the institution;

(f) a description of the processes in place to monitor changes in the credit risk and market risk for securitization exposures assumed by the institution (including a description of the processes to monitor how the behaviour of the underlying exposures in the securitization transactions impacts the institution's securitization exposures and, if those processes differ for re-securitization exposures assumed by the institution, a description of how they differ);

(g) a description of the institution's policy governing the use of credit risk mitigation to mitigate the risks of securitization exposures retained (including the institution's policy governing the use of credit risk mitigation to mitigate the risks of re-securitization exposures retained if this differs from its policy governing the use of credit risk mitigation to mitigate the risks of securitization exposures retained);

(h) a list of the types of special purpose entities, if any, that the institution has used to securitize exposures acquired from third parties and an indication of the extent and type of the institution's exposures, both on-balance sheet exposures and off-balance sheet exposures, to those special purpose entities;

(i) a list of the related companies (within the meaning of section 35 of the Capital Rules) that the institution manages or advises and that invest in the securitization exposures issued by—

(i) the institution; or

(ii) the special purpose entities of which the institution is a sponsor;

(j) the names of the ECAIs the institution used in relation to the securitization exposures in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, during the annual reporting period and the types of securitization exposures for which each such ECAI was so used;

(k) an explanation of significant changes to any of the quantitative disclosures (including an explanation of those related to the amount of exposures that the institution holds with the intention of transferring them into securitization transactions and the movements of exposures between the institution's banking book and trading book) since the last reporting period;

(l) the total outstanding amount of underlying exposures in securitization transactions (regardless of whether the exposures in a traditional securitization transaction have been excluded from the calculation of the risk-weighted amount of the institution's credit exposures under Part 4, 5, 6 or 7 of the Capital Rules in accordance with section 229(1)(a) of those Rules and regardless of whether the risk-weighted amount of the exposures in a synthetic securitization transaction have been calculated in accordance with sections 229(1)(b) and 243, or sections 229(1)(b) and 255, of those Rules), broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(m) the total outstanding amount of underlying exposures in securitization transactions of which the institution is a sponsor, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(n) in the case of underlying exposures in securitization transactions (regardless of whether the exposures in a traditional securitization transaction have been excluded from the calculation of the risk-weighted amount of the institution's credit exposures under Part 4, 5, 6 or 7 of the Capital Rules in accordance with section 229(1)(a) of those Rules and regardless of whether the risk-weighted amount of the exposures in a synthetic securitization transaction have been calculated in accordance with sections 229(1)(b) and 243, or sections 229(1)(b) and 255, of those Rules)—

(i) the amount of impaired or overdue exposures securitized, broken down by exposure type; and

(ii) the losses recognized by the institution during the annual reporting period, broken down by exposure type;

(o) the amount of outstanding exposures that the institution holds with the intention of transferring them into securitization transactions, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(p) a summary of the securitization transactions the institution has entered into during the annual reporting period, including—

(i) the amount of underlying exposures that have been securitized, broken down by exposure type; and

(ii) the amount of recognized gain or loss on sale of underlying exposures that have been securitized, broken down by exposure type,

and shown separately for the exposures booked in the institution's banking book and trading book;

(q) the total outstanding amount of the institution's on-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(r) the total outstanding amount of the institution's off-balance sheet securitization exposures, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(s) the total amount of securitization exposures (excluding re-securitization exposures) in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(t) the total amount of re-securitization exposures in respect of which the institution uses the STC(S) approach or IRB(S) approach, or both, and the capital requirements for those exposures, broken down into the respective risk-weight bands of those exposures determined by reference to the capital requirements calculation for those exposures;

(u) the securitization exposures that have been fully deducted from the institution's core capital, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(v) the credit-enhancing interest-only strips and other exposures that have been deducted from the institution's core capital and supplementary capital, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(w) in the case of securitization transactions that are subject to an early amortization provision and in which the institution is the originating institution—

(i) the total principal amount of the drawn balances of the underlying exposures attributed to the originator's and investors' interests, broken down by exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(ii) 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 exposure type, and shown separately for the exposures booked in the institution's banking book and trading book; and

(iii) 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 exposure type, and shown separately for the exposures booked in the institution's banking book and trading book;

(x) the total amount of re-securitization exposures of the institution, broken down into—

(i) exposures to which credit risk mitigation is applied and those to which it is not applied; and

(ii) exposures to guarantors, broken down by credit-worthiness categories or names of the guarantors,

each shown separately for the exposures booked in the institution's banking book and trading book;

(y) the total outstanding amount of underlying exposures in securitization transactions in relation to which the institution has retained some securitization exposures and calculates the risk-weighted amount of those exposures under Part 8 of the Capital Rules, broken down into traditional securitization transactions and synthetic securitization transactions and then broken down by exposure type;

(z) the total amount of the institution's securitization exposures booked in the institution's trading book that are subject to the comprehensive risk charge, the amount of comprehensive risk charge for those exposures as calculated under Part 8 of the Capital Rules, and a breakdown of that amount of comprehensive risk charge into default risk, credit migration risk, correlation risk and other material risk factors;

(za) the total amount of the institution's securitization exposures that are subject to Part 8 of the Capital Rules for the calculation of the specific risk for the exposures (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach; and

(zb) the capital requirements for the securitization exposures of the institution that are subject to Part 8 of the Capital Rules (but excluding securitization positions booked in the institution's trading book that fall within a correlation trading portfolio and are subject to the comprehensive risk charge under the internal models approach for market risk), broken down into the respective market risk capital charge factors of those exposures for each regulatory capital approach.

(2) The disclosures required under subsection (1)(a), (b), (c), (d), (e), (f), (g), (h) and (i) must, for information purposes, be shown separately in relation to the authorized institution's securitization exposures booked in the institution's banking book and trading book.".

(2) Section 82—

Repeal subsections (3), (4) and (5).

13. Section 83 amended (market risk)

(1) Section 83(1)(b)—

Repeal subparagraph (i)

Substitute

"(i) interest rate exposures (including options exposures if applicable), including the separate disclosure of the capital requirements incurred by the institution against securitization positions and non-securitization positions;".

(2) Section 83(2)(d)(iii)—

Repeal

"processes; and"

Substitute

"processes;".

(3) Section 83(2)—

Repeal paragraph (e)

Substitute

"(e) in respect of the incremental risk charge and the comprehensive risk charge calculated by the institution using internal models, disclose a description of the methodologies used and the risks measured through the use of the internal models, including—

(i) the approach used by the institution to determine liquidity horizons;

(ii) the methodologies used to achieve a capital assessment for market risk that is consistent with a soundness standard comparable to that for the IRB approach for credit risk; and

(iii) the approaches used in the validation of the models; and".

(4) After section 83(2)(e)—

Add

"(f) 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;

(ii) the institution's average, high and low stressed VaR for the annual reporting period and the stressed VaR as at the last trading day of the annual reporting period;

(iii) the institution's average, high and low incremental and comprehensive risk charges for the annual reporting period and the incremental and comprehensive risk charges as at the last trading day of the annual reporting period; and

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

Norman CHAN
Monetary Authority

14 October 2011

Explanatory Note

1. These Rules are made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) and 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) changes to the disclosure requirements for securitization transactions as contained in the paper entitled "Enhancements to the Basel II framework", released by the Basel Committee on Banking Supervision (***BCBS***) in July 2009; and
   (b) changes to the disclosure requirements for market risk as contained in the paper entitled "Revisions to the Basel II market risk framework", released by the BCBS in July 2009 and updated in February 2011.

3. The Rules come into operation on 1 January 2012.