`Our Ref. G10/1/2C

23 November 2000

The Chief Executive
All overseas incorporated authorized institutions

Dear Sir/Madam,

<u>Disclosure Guidelines for Overseas Incorporated Authorized Institutions</u>

The HKMA issued in October a consultative paper on "Disclosure Guidelines for Overseas Incorporated Authorized Institutions" (Guideline). Having consulted the two industry Associations and the Working Party on Financial Disclosure, the HKMA has now prepared the final draft of the Guideline which is attached to this letter.

The updates incorporated in the draft Guideline in this exercise would bring the financial disclosure standards for overseas institutions more in line with international best practices, in particular International Accounting Standard number 30. They also would bring the disclosure standards for foreign AIs more into line with the annual disclosure standards for local AIs. More specifically, the changes include: -

(a) Disclosure of profit and loss information is introduced. The disclosure format is structured in such a way that formation can be extracted directly and with relative ease from the "Current Year's Profit and Loss Account) return (MA(BS)1C) (see Section A Part I);

(b) Institutions should disclose foreign currency exposures consistent with the method used in the "Foreign Currency Position" return (MA(BS)6). Disclosure of net structural positions, as defined in the return MA(BS)6, in the foreign currency is also required (Section A Part III item (iv));

(c) Disclosure of advances by location of counterparty is incorporated. Such disclosure should be made after taking into account transfer of risk. Geographical disclosure of overdue and non-performing loans is included (Section A Part III item (iii)); and

(d) A new term “non-performing loans” (defined as loans on which interest is being placed in suspense or on which interest accrual has ceased) is introduced. The reconciliation between overdue and non-performing loans is formally set out with a view to improving clarity and uniformity on loan quality disclosures (Section A Part III item (ii) and (v) respectively).

We are now making arrangements to formally issue the captioned Guideline as well as the Guideline on Financial Disclosure by Locally Incorporated Authorized Institutions on 8 December. In the meantime, the draft Guideline is now put on the HKMA’s private website for AIs so as to provide early notice to authorized institutions to enable them to make early preparation for disclosure of new items. If you have any questions, pleas feel free to contact Mr. Kim Chong at 2878 1848 or Ms. Tess Leung at 2878 8279.

Yours faithfully,

(D T R Carse)
Deputy Chief Executive

Encl.