Return of Liquidity Position
MA(BS)1E

Summary of Proposed Changes

1. Specified instruments
(Completion instructions - Section A item 9; Section B Part I.1 item (5)(a)(i))

(a) The list of the issuers of the specified instruments is updated to reflect change in name and changes in Schedule 1 of the Sale and Repurchase Agreement with the HKMA.
(b) Clarification is also made in respect of the specified instruments that are allowed for offsetting purposes.

2. Debt securities or prescribed instruments issued by reporting institution which are maturing in more than 1 month
(Completion instructions - Section B Part I.1 item (8))

Clarification is made that interest payable within 1 month on debt securities or prescribed instruments issued by the reporting institution which are maturing in more than 1 month should be reported in item (3)(b) if they are held by relevant banks, or in item (11) if they are held by customers other than relevant banks. Opportunity is also taken to clarify the alternative treatment of debt securities or prescribed instruments under item (8) of Part I.1.

3. Residential mortgage loans covered by HKMC's irrevocable forward commitment facility
(Completion instructions - Section B Part I.1 item (7) and Part II.4 A&B)

Relevant completion instructions are updated to reflect an amendment in the HKMC's forward commitment facility agreement which no longer requires a distinction of the commitment period into "Initial" and "Subsequent" periods.

4. Repo and reverse repo where all the risks and rewards of ownership are substantially transferred to the buyer
(Completion instructions - Annex 2)

Guidance is now given for the reporting of such repos and reverse repos, in line with the accounting treatment under SSAP24. While it appears that substantial amendments have been proposed for the reporting of such transactions, the net impact of the proposed amendments on the institutions' liquidity ratios is considered to be immaterial.

July 2002

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SECRET

Co. No. MM YY CAT

(For Official Use Only)

under the Banking Ordinance

LIQUIDITY POSITION OF AN AUTHORIZED INSTITUTION
*LOCAL OFFICE(S)/CONSOLIDATED RETURN

For the month of.....

*Delete where inapplicable. Overseas incorporated institutions are required to report this return showing the liquidity position of the Hong Kong office(s) only.

Name of Authorized Institution	Date of Submission

The Banking Ordinance

Return required under section 63(2) of the Banking Ordinance to be submitted to the Monetary Authority not later than 14 days after the last day of each calendar month, unless otherwise advised by the Monetary Authority.

Note: This return is to be prepared in accordance with the completion instructions issued by the Monetary Authority.

We certify that this return is, to the best of our knowledge and belief, correct.

Chief Accountant | *Chief Executive*

Name | *Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

Name | *Telephone Number*

PART I - LIQUIDITY RATIO

(Calculation to be made in accordance with the Fourth Schedule to the Banking Ordinance)

1. LIQUIDITY POSITION AS AT THE LAST DAY OF THE MONTH

(HK$'000)

LIQUEFIABLE ASSETS	Principal amount	Liquidity conversion factor (%)	Weighted amount	Of which	
				HK$ + US$	Other currencies
(1) Currency notes and coins		100			
(2) Gold		100			
(3) *(a)* Total one-month liabilities of relevant banks to the authorized institution		100			
(b) Total one-month liabilities of the authorized institution to relevant banks		100			
(c) The amount, if any, by which the total one-month liabilities of the authorized institution to relevant banks are exceeded by the total one-month liabilities of relevant banks to it [(3)*(a)*-(3)*(b)* ³ 0]		100			
(4) Export bills –					
(a) payable within 1 month and which are either drawn under letters of credit issued by relevant banks or accepted and payable by relevant banks		100			
(b) covered by irrevocable re-discounting facilities approved by the Monetary Authority		100			
(5) Marketable debt securities or prescribed instruments -					
(a) issued or guaranteed by–					
(i) the Hong Kong Government, the Exchange Fund, a public sector entity in Hong Kong or multilateral development bank with a remaining term to maturity of –					
(A) not more than 1 year		100			
(B) more than 1 year		95			
(ii) an authorized institution incorporated in Hong Kong or the Hong Kong branch of an authorized institution incorporated overseas with a remaining term to maturity of –					
(A) not more than 1 month		100			
(B) more than 1 month but not more than 1 year		95			
(C) more than 1 year		90			
(b) with a qualifying credit rating, issued or guaranteed by –					
(i) the central bank or central government of any country with a remaining term to maturity of -					
(A) not more than 1 year		100			
(B) more than 1 year		95			

(HK$'000)

LIQUEFIABLE ASSETS (CONTINUED)	Principal amount	Liquidity conversion factor (%)	Weighted amount	Of which	
				HK$ + US$	Other currencies
(ii) a relevant bank, other than one included in item (5)*(a)*(ii), with a remaining term to maturity of –					
(A) not more than 1 month		100			
(B) more than 1 month but not more than 1 year		95			
(C) more than 1 year		90			
(iii) a regional government of any country or other institution with a remaining term to maturity of –					
(A) not more than 1 year		90			
(B) more than 1 year but not more than 5 years		85			
(C) more than 5 years		80			
(c) without a qualifying credit rating, issued or guaranteed by a relevant bank, other than one included in item (5)*(a)*(ii), with a remaining term to maturity of not more than 1 month		100			
(d) approved for inclusion by the Monetary Authority		80			
(e) not included elsewhere in this item with a remaining term to maturity of not more than 1 month		80			
(6) Eligible loan repayments		80			
(7) Residential mortgage loans in respect of which there has been issued by The Hong Kong Mortgage Corporation Limited an irrevocable commitment to purchase which is approved by the Monetary Authority		90			
(8) DEDUCTION: Debt securities or prescribed instruments with a remaining term to maturity of not more than 1 month issued by the authorized institution		100			
(9) TOTAL LIQUEFIABLE ASSETS AFTER DEDUCTION					

QUALIFYING LIABILITIES	Principal amount	Of which	
		HK$ + US$	Other currencies
(10) The amount, if any, by which the total one-month liabilities of relevant banks to the authorized institution are exceeded by its total one-month liabilities to relevant banks [(3)*(b)*-(3)*(a)*>0]			
(11) The total of its other one-month liabilities			
(12) TOTAL QUALIFYING LIABILITIES			
(13) LIQUIDITY RATIO (weighted amount of item (9)/principal amount of item (12))	%		

2. AVERAGE LIQUIDITY RATIO FOR THE MONTH

	(HK$'000)
Average liquefiable assets (A)	
Average qualifying liabilities (B)	
Average liquidity ratio (A/B)	%

3.	LOWEST LIQUIDITY RATIO DURING THE MONTH	Date: (dd/mm/yy)	%

4.	AMOUNT OF PLEDGED DEPOSITS EXCLUDED FROM ITEM (11) OF PART I.1	

5. ADDITIONAL INFORMATION ON LIQUEFIABLE ASSETS AS AT THE LAST DAY OF THE MONTH		Principal amount	Liquidity conversion factor (%)	Weighted amount	Of which	
					HK$ + US$	Other currencies
(1)	*(a)* Total seven-day liabilities of relevant banks to the authorized institution		100			
	(b) Total seven-day liabilities of the authorized institution to relevant banks		100			
	(c) The amount, if any, by which the total seven-day liabilities of the authorized institution to relevant banks are exceeded by the total seven-day liabilities of relevant banks to it [(1)*(a)*-(1)*(b)* 0]		100			
(2)	Export bills –					
	(a) payable within 7 days and which are either drawn under letters of credit issued by relevant banks or accepted and payable by relevant banks		100			
	(b) re-discountable within 7 days under irrevocable re-discounting facilities approved by the Monetary Authority		100			
(3)	Marketable debt securities or prescribed instruments with a remaining term to maturity of not more than 7 days –					
	(a) included in Part I.1(5)*(c)*		100			
	(b) included in Part I.1(5)*(e)*		80			
(4)	Eligible loan repayments falling due within 7 days		80			
(5)	Debt securities or prescribed instruments with a remaining term to maturity of not more than 7 days issued by the authorized institution		100			

PART II - SUPPLEMENTARY INFORMATION (FOR POSITION AS AT THE END OF THE MONTH) (HK$'000)

1. INTER-OFFICE/INTRA-GROUP TRANSACTIONS INCLUDED IN PART I.1

	Within 7 days	8 days to 1 month	Total
CLAIMS ON			
Head Office and overseas offices			
Connected authorized institutions in Hong Kong			
Connected banks outside Hong Kong			
Total claims			
LIABILITIES TO			
Head Office and overseas offices			
Connected authorized institutions in Hong Kong			
Connected banks outside Hong Kong			
Total liabilities			
NET CLAIMS/(LIABILITIES)			

2.

DEPOSITS FROM CONNECTED CUSTOMERS	

3. BACK-TO-BACK TRANSACTIONS INCLUDED IN THE COMPUTATION OF LIQUIDITY RATIO
(Supplementary sheets may be attached if space provided is insufficient)

Counterparty	Claims					Liabilities		
	Amount	Interest rate	Maturity date (dd/mm/yy)	***Indicator***	***Remarks***	Amount	Interest rate	Maturity date (dd/mm/yy)
Total								

4. IRREVOCABLE STANDBY FACILITIES AND LARGE DEPOSITS

(Supplementary sheets may be attached if space provided is insufficient)

A. Facilities received from banks and authorized institutions and forward commitment facility issued by The Hong Kong Mortgage Corporation Limited and approved by the Monetary Authority

Name	Type of facilities	Limit (HK$'000)	Expiry date (dd/mm/yy)	Amount drawn (HK$'000)	Secured (S) or unsecured (U)
Total					

B. Facilities given to banks and authorized institutions

Total					

C. 10 largest deposits from non-bank customers

Customers	Amount (HK$'000)	As % of total non-bank deposits
Total		

D. 10 largest borrowings from banks (other than head office and overseas branches)

Banks	Amount (HK$'000)	As % of total liabilities	Secured (S) or unsecured (U)
Total			

Completion Instructions

Return of Liquidity Position of an Authorized Institution (Form MA(BS)1E)

Introduction

This return captures information on institutions' liquidity ratio and funding sources. This information will be used to monitor institutions' compliance with the requirements under the Banking Ordinance supplemented by the policy & guidelines issued by the Hong Kong Monetary Authority ("HKMA"). These completion instructions should be read in conjunction with the circular letter of 24 January 1994 issued by the HKMA concerning its policy on supervision of liquidity of authorized institutions and the revised Fourth Schedule to the Banking Ordinance implemented on 1 August 1994.

Section A : General instructions and reporting principles

1. All authorized institutions ("AIs") are required to complete this return showing the position of their Hong Kong office(s) for each month. The return should be submitted to the Monetary Authority ("MA") not later than 14 days after the end of each month.

2. Locally incorporated AIs, as advised by the MA, may be required to complete an additional return on the consolidated position of their Hong Kong office(s) and certain overseas branches and subsidiaries. This return should be submitted to the MA not later than 21 days after the end of each month or at a deadline otherwise approved by the MA.

3. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

4. Amounts should be shown to the nearest thousand in HK$ or HK$ equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the reporting date should be used for conversion purposes.

5. The meaning of the terms used in Part I of this return are specified in the Fourth Schedule to the Banking Ordinance.

6. "Weighted amounts" should be calculated by multiplying the principal amount of an item by the Liquidity Conversion Factor ("LCF") assigned to it. Weighted amount under the "HK$ + US$" and "Other currencies" columns should be calculated by multiplying the principal amounts of an item in these currencies by the relevant LCF.

7. "Remaining term to maturity" should be classified in accordance with the following illustrative examples:

Remaining term to Maturity	Reporting Date 31.1.94	28.2.94	29.2.94*	30.4.94
	Period Covered			
not more than 7 days	1.2.94 - 7.2.94	1.3.94 - 7.3.94	1.3.94 - 7.3.94	1.5.94 - 7.5.94
8 days to 1 month	8.2.94 - 28(29*).2.94	8.3.94 - 28.3.94	8.3.94 - 29.3.94	8.5.94 - 30.5.94
not more than 1 month	1.2.94 - 28(29*).2.94	1.3.94 - 28.3.94	1.3.94 - 29.3.94	1.5.94 - 30.5.94
more than 1 month but not more than 1 year	1.3.94 - 31.1.95	29.3.94 - 28.2.95	30.3.94 - 28.2.95	31.5.94 - 30.4.95
not more than 1 year	1.2.94 - 31.1.95	1.3.94 - 28.2.95	1.3.94 - 28.2.95	1.5.94 - 30.4.95
more than 1 year but not more than 5 years	1.2.95 - 31.1.99	29.2.95* or 1.3.95 - 28.2.99	1.3.95 - 28(29*).2.99	1.5.95 - 30.4.99
more than 5 years	1.2.99 onwards	29.2.99* or 1.3.99 onwards	1.3.99 onwards	1.5.99 onwards

*Assuming 29 days in February

8. Unmatured securities transactions and repo/reverse repo should be reported according to the treatments presented in Annex 2 to these instructions. The treatments are based on the impact of these transactions on the liquidity position of the reporting institution within one month. Market makers of Exchange Fund Bills/Notes and other Specified Instruments should however report their positions according to the specific completion instructions for item 5(a)(i) below. Where the Market Makers enter into repo transactions with HKMA through the Discount Window, they should report these transactions as recommended in Annex 2.

9. "Specified Instruments" refer to those specified in Schedule 1 of the Sale and Repurchase Agreement with the HKMA - currently apply to notes issued by ~~Mass Transit Railway Corporation~~ ***MTR Corporation Limited***, Airport Authority and The Hong Kong Mortgage Corporation Limited ~~and The Kowloon-Canton Railway Corporation~~.

Section B : Specific instructions

Item	Description

Part I.1

(2) Gold

This includes gold coins and gold bullion beneficially owned by the reporting institution.

(3) Total "one-month liabilities" due from/due to relevant banks

(3)(a) Report in this sub-item claims on relevant banks maturing within 1 month. This would include forward forward deposits due to be placed by relevant banks with the reporting institution within 1 month except those also maturing within 1 month from the reporting date. Claims under export bills discounted and marketable debt securities or prescribed instruments held should be reported in items (4) and (5) of Part I.1 respectively.

(3)(b) Report in this sub-item liabilities to relevant banks maturing within 1 month. This would include forward forward deposits due to be placed by the reporting institution with relevant banks within 1 month except those also maturing within 1 month from the reporting date. This would also include the contingent liabilities as referred to in the definition of item (11) below. ~~Liabilities arising from debt securities or prescribed instruments issued by the reporting institution~~ ***Debt securities or prescribed instruments with a remaining term to maturity of not more than 1 month issued by the reporting institution and interest payable thereon*** should be included in item (8) of Part I.1., unless otherwise agreed with the MA.

Amounts of interest payable and interest receivable which are due within 1 month in respect of claims on and liabilities to relevant banks should also be included in the calculation of the net "one month liabilities" to relevant banks.

Back-to-back transactions

Back-to-back transactions refer to those inter-office or intra-group transactions which typically involve two legs, one borrowing long (at more than 1 month's maturity) and the other lending short (at a maturity of not more than 1 month). Both legs of the transactions are for the same or similar amount and at the same or similar rate of interest and are, in most cases, rolled forward continuously. There may be no actual movement of funds.

In the case of a local branch (or an authorized subsidiary) of a foreign bank, the MA may approve a claim under a back-to-back transaction for liquidity purposes if the following conditions are met:

(a) the foreign bank is an international bank whose liquidity is managed, and supervised, on an integrated global basis;

(b) the transaction is carried out with the head office of the foreign bank; transactions with sister branches outside Hong Kong should not be included;

(c) the transaction has been accounted for and settled in the same way as other interbank transactions entered into in the normal course of business;

(d) there are no doubts about the liquidity of the head office;

(e) the head office has confirmed, in terms acceptable to the MA, that the effect of the transactions is to provide genuine liquidity to the branch even in the event of funding difficulties affecting the bank as a whole;

(f) in the case of transactions of material size, the home supervisor has confirmed to the MA that it is aware of the transaction and its purpose and has no objection to it.

The MA will approach the home supervisor for a confirmation where necessary. As a general rule, back-to-back transactions will be regarded as material if the liquidity ratio of the institution would drop below 30% after excluding such transactions from the calculation of the ratio.

Amounts of interest payable and interest receivable in respect of claims on and liabilities to relevant banks due within 1 month should also be included in this item.

(4) Export bills

(4) (a) Report in this sub-item the amount of export bills drawn under letters of credit issued by relevant banks which are payable after sight or within 1 month. Report also export bills which are not drawn under letters of credit but accepted by relevant banks and due for payment within 1 month. However, sight bills which remain unpaid 14 days after negotiation and usance bills which remain unpaid 14 days after due date, or whose due date has been extended, should be excluded.

(4)(b) Usance bills which are excluded from sub-item 4(a) may be included in this sub-item provided that they are covered by re-discounting facilities approved by the MA. A re-discounting facility will be approved only if it meets the following criteria:

(a) it is provided by a third party relevant bank;

(b) it is irrevocable before its expiry;

(c) it allows usance bills to be re-discounted on a without recourse basis; and

(d) it provides for the proceeds of bills re-discounted to be remittable to the reporting institution within 1 month.

The amount to be reported under sub-item 4(b) should be net of any realisation cost or discounting charges the reporting institution may expect.

(5) Marketable debt securities or prescribed instruments

Report the amount of any securities or instruments eligible for inclusion in this item which the reporting institution may receive within 1 month either by maturity or by realisation in the secondary market.

(5)(a)(i) Exchange Fund Bills/Notes and other Specified Instruments

Market Makers of these instruments should report their positions in these instruments in accordance with the following instructions:

(a) the long and short positions of such instruments with a remaining term to maturity of not more than 1 year should be offset against one other;

(b) the long and short positions of such instruments with a remaining term to maturity of more than 1 year should similarly be offset against one other;

(c) if the net positions in both (a) and (b) above are long, they should be reported in sub-items (5)(a)(i)(A) and (5)(a)(i)(B) respectively;

(d) if the net positions in (a) and (b) are in the opposite direction (i.e. one is long and the other is short), the long position should be reduced by the amount of the short position on a dollar for dollar basis. The resultant net long position, if any, should then be reported in the appropriate time band.

However, as the HKMA has ceased to be the Arranger for the respective Note Issuance Programmes of the organisations referred to under item 9 of Section A above since 1 September 2001, all instruments issued by such organisations on or after 1 September 2001 should not be allowed to be netted off.

(5)(a)(ii) Securities or instruments issued by the head office or sister branches of an AI incorporated overseas should not be included in this sub-item. They may be included in sub-items (5)(b)(ii), (5)(c), (5)(d) or (5)(e) if they meet the criteria for any of these sub-items.

(5)(b) The qualifying credit rating as specified in the Fourth Schedule generally relates to individual securities or instruments rather than the issuers of such securities or instruments. However, marketable debt securities which do not have an individual qualifying credit rating but which are issued or guaranteed by the central government or central bank of a country which has a qualifying credit rating should be included in item (5)(b)(i).

(5)(d) Marketable debt securities or prescribed instruments approved for inclusion by the MA

Als with any of the following securities may report them in this sub-item:

(i) unrated securities issued or guaranteed by the regional or local governments of a country which has a qualifying credit rating;

(ii) unrated securities issued by any institution which are re-discountable with the central bank of a country which has a qualifying credit rating;

(iii) unrated securities issued or guaranteed by a relevant bank which has a qualifying credit rating; and

(iv) any other securities from time to time approved by the MA for inclusion in this item.

(6) Eligible loan repayments

Report in this item repayments of loans, including the principal and interest receivable which fall due within 1 month**,** by customers other than relevant banks. Refer to the definitions in the Fourth Schedule to the Banking Ordinance for the eligibility criteria of loan repayments for inclusion in this item. This item should exclude any repayment in respect of mortgage loans reported in item (7) below.

For the purpose of this item, a loan will be regarded as fully performing if there are no arrears of principal or interest. Where the payment date(s) of principal or interest of a loan has been "rescheduled", including the roll-over of a loan on its original due date or the negotiation of a loan of its payment terms in advance of maturity, the loan can still be regarded as fully performing provided that:

(a) the rescheduling of payment dates is not caused by a deterioration in the financial position of the borrower or of his ability to meet the original repayment schedule; and

(b) the revised payment terms are not "non-commercial" to the authorized institution.

In the case of loans repayable by instalments at intervals of not more than 1 month (e.g. residential mortgage loans, hire purchase loans and personal loans), they will still be regarded as fully performing if there is no instalment which is overdue for more than 1 month on the reporting date.

Loans falling due within one month that have revolving features, i.e. where the reporting institution has a commitment to provide finance to its customer under a facility on an on-going basis, should not be included in this item. However, such revolving loans can be included as eligible loan repayments when both the revolving loan and the facility are due to mature or expire within one month and there is no

commitment, either verbally or in writing, that the facility will be renewed. The background and rationale for the treatment of revolving loans in the statutory liquidity ratio are given in the HKMA's letter of 27 May 1994 to AIs.

For repayments of loans which are secured by deposits pledged with the reporting institution, their reporting principles are based on a cash flow concept. The following table illustrates how the loan repayments and the pledged deposits, both of which are due within 1 month, should be reported.

	Amount to be included in			
Scenarios	Eligible Loan Repayment		1-month liabilities	
	(A)	(B)	(A)	(B)
L = D	-	R*	-	-
L > D	R - D	R*	-	-
L < D	-	R*	D - L	D - L

(A) = in the case of a loan, including a loan to be repaid by instalments, the outstanding balance of which will be fully repaid within 1 month

(B) = in the case of a loan the outstanding balance of which will not be fully repaid within 1 month

L = outstanding balance of the loan

D = amount of the pledged deposit

R = repayment(s) of the loan due within 1 month

* = to the extent that the repayments will not be used to reduce the amount of the deposit or interest payable thereon.

Where the pledged deposit matures beyond 1 month, a repayment of the loan due within 1 month can be included as eligible loan repayment.

(7) Residential mortgage loans in respect of which there has been issued by The Hong Kong Mortgage Corporation Limited ("HKMC") an irrevocable commitment to purchase which is approved by the Monetary Authority

AIs should seek prior approval from the MA before reporting any mortgage loans under this item.

Report in this item the amount of residential mortgage loans covered by HKMC's irrevocable Forward Commitment Facility ("Facility") and are immediately saleable to HKMC. Such loans must conform to HKMC's purchasing requirements and satisfy any conditions as set out in its Forward Commitment Facility Letter Agreement approved by the MA for this purpose.

~~In addition, t~~The total reported amount cannot exceed the amount of commitment agreed under the Facility less any commitment amount utilised. ~~During the Initial Period, the amount of commitment shall be the entire amount under the approved Facility (i.e. both the Initial Allocated Amount and the Subsequent Allocated Amount). During the Subsequent Period, it shall be the Subsequent Allocated Amount adjusted for any unutilized amount rolled over from the Initial period.~~

If HKMC, under the facility agreement, requires the AI to repurchase default mortgages, the obligation to repurchase the mortgage should be included in qualifying liabilities for liquidity calculation purpose if the repurchase is to be made within 1 month.

(8) Debt securities or prescribed instruments issued

Report the amount of any such securities or instruments with a remaining term to maturity of not more than 1 month issued by the reporting institution and interest payable thereon. ***Alternatively*** ~~However~~, these liabilities may be ~~given the standard treatment applied to 1-month liabilities due to relevant banks or non-relevant bank customers, as the case may be,~~ ***reported in item (3)(b) or item (11) of Part I.1,*** if the reporting institution can demonstrate to the satisfaction of the MA that ~~they~~ ***the liabilities*** have similar rollover characteristics ~~to such other 1-month liabilities~~ ***as the liabilities reported under these items***. The MA will require a reasonable assurance, based on past experience, that the maturing liabilities would be replaced and were not simply "one-off" transactions. This might apply, for example, where the institution is able to tap a reliable pool of investors through regular issues of certificates of deposit.

~~Alternatively,~~ They can ***also*** be treated in the same way as interbank borrowings if the institution can demonstrate to the MA that alternative funding will be available from specific lines of credit standby facilities provided by a third party relevant bank in the event of a failure to refinance.

Interest payable within 1 month on debt securities or prescribed instruments issued by the reporting institution which are maturing in more than 1 month should be reported in item (3)(b) of Part I.1 if they are held by relevant banks, or item (11) of Part I.1 if they are held by customers other than relevant banks. Where a reporting institution cannot identify the holders of the debt securities or prescribed instruments, the information should be reported in item (11) of Part I.1.

Qualifying liabilities

(10) Total net "one-month liabilities" to relevant banks

If the reporting institution's "one-month liabilities" to relevant banks exceed the latter's "one-month liabilities" to it, i.e. where item (3)(b) of Part I.1 is greater than

item (3)(a) of the same Part, report the net "one-month liabilities" to relevant banks in this item.

(11) Other one-month liabilities

Report in this item deposits and other liabilities payable including interest payable within 1 month to ~~non-bank customers (including non-relevant banks)~~ ***customers other than relevant banks***. "Other liabilities" include the reporting institution's irrevocable commitments to provide funds on a known date of draw down within 1 month or irrevocable standby facilities which are at call or have a notice period within 1 month. This would include a commitment to pay under contingent liabilities, e.g. a call on the institution to meet its undertaking under a guarantee. Commitments to provide funds which can be unconditionally cancelled (such as credit facilities for overdrafts) should be excluded.

Pledged deposits, to the extent of the outstanding balance of the loan which is secured by them, should be excluded from this item. Deposits which have been pledged with the reporting institution to secure off-balance sheet items should be included as qualifying liabilities except to the extent that they are pledged to secure such items which are also included as qualifying liabilities.

Amounts due to third parties (customers or brokers) when the reporting institution has sold or bought securities on behalf of clients for which the settlement date is not yet due should be excluded from this item. Similarly, the corresponding receivables (from brokers or clients) should not be included as liquefiable assets. Exclusion from liquefiable assets and qualifying liabilities is also applicable to the account receivables and payables arising from the margin trading deals which are valued but unsettled. These refer to margin trading positions which the customer has not given instructions to close out. The margin deposits should however be included as qualifying liabilities where appropriate.

Part I.2 Average liquefiable assets and qualifying liabilities

These should be calculated by dividing the sum of the weighted amounts of liquefiable assets, or the sum of qualifying liabilities, as the case may be, which are maintained by the reporting institution at the close of business on each working day during a month by the number of working days during that month.

In the case of institutions which have been approved by the MA to calculate their average monthly liquidity ratios on the basis of specified days during a month, their average liquefiable assets and average qualifying liabilities should be calculated by dividing the sum of the weighted amounts of liquefiable assets, or the sum of qualifying liabilities, as the case may be, maintained by the institution at the close of business on each of the specified days during a calendar month by the number of such specified days during the same month. If such specified day is a public holiday, the immediate preceding working day shall be taken for the purpose of such calculation.

Part I.3 Lowest liquidity ratio during the month

This should be the lowest liquidity ratio recorded at the close of business on a working day, or specified day and the last calendar day of the month, as the case may be, during the month covered by the return.

Part II.1 Inter-office/Intra-group transactions included in Part I.1

"Connected AIs" and "connected banks outside Hong Kong" include any such AI or bank which is for the time being a minority or majority shareholder controller (as defined in section 2 of the Banking Ordinance), subsidiary, associate or affiliate of the reporting institution.

Part II.2 Deposits from connected customers

Connected customers include any non-bank customer who is for the time being:

(a) a holding company, subsidiary, associate or affiliate of the reporting institution;

(b) a minority or majority shareholder controller (as defined in section 2 of the Banking Ordinance) of the reporting institution and the spouse of any such shareholder in the case of an individual; or

(c) a director of the reporting institution and the spouse of any such director.

Part II.3 Back-to-back transactions included in the computation of liquidity ratio

Report in this part details of back-to-back transactions which have been included in the computation of the liquidity ratio. The two legs of a back-to-back transaction should be reported on the same row.

~~Indicate with an asterisk, (*) against the amount of a claim where the reporting institution has an option to call for repayment before the contractual maturity with a period of notice of not more than 7 days.~~

In the "Indicator" column, insert a letter "A" under the following situations:

(1) where the reporting institution has an option to call for repayment before the contractual maturity with a period of notice of not more than 7 days; or

(2) where the residual maturity of the claim is not more than 7 days.

For other situations, insert a letter "B".

Part II.4 A & B

In this part, report irrevocable standby facilities received from/given to banks, authorized institutions and HKMC. For the reporting of the Forward Commitment Facility issued by HKMC and approved by the Monetary Authority, the amount of the available limit should be reported. ~~For facilities of over 6 months, both the Initial Allocated Amount and the Subsequent Allocated amount should be reported as the commitment amount in the Initial Period. During the Subsequent Period, report the Subsequent Allocated Amount and any unutilized Initial Allocated Amount rolled over by HKMC.~~

Part II.4 C & D

In this part, different deposits from the same non-bank customer and different borrowings by the same bank should be aggregated. Deposit from non-bank customers may be identified by account/customer numbers. Use of a different number from that applied to the same client in a previous return must be indicated and cross referenced.

For the purpose of this part, borrowings and deposits from Exchange Fund should be regarded as deposits from banks.

Hong Kong Monetary Authority
~~May 1999~~ ***(MM/2003)***

Annex 1

Method of Calculation of Tier 1 Liquidity Ratio

1. The Tier 1 liquidity ratio of an authorized institution shall be calculated as the ratio, expressed as a percentage, between its Tier 1 liquefiable assets as specified in paragraph 2 and its Tier 1 qualifying liabilities as specified in paragraph 3.

2. The Tier 1 liquefiable assets of an authorized institution shall be the sum of the weighted amounts, calculated in Hong Kong dollars, of the following items which are reported in the return of Liquidity Position -

Tier 1 liquefiable assets	Item reference in Part I of the return of Liquidity Position
Cash	1.(1)
Gold	1.(2)
Net 7-day claims on relevant banks	5.(1)(c)
Export bills payable or re-discountable within 7 days	5.(2)(a) + (b)
Marketable debt securities or prescribed instruments maturing or realizable within 7 days	1.(5)(a) + 1.(5)(b) + 1.(5)(d) + 5.(3)(a) + 5.(3)(b)
Eligible loan repayments falling due within 7 days	5.(4)
Deduction: Debt securities or prescribed instruments with a residual maturity of within 7 days issued by the authorized institution	5.(5)

3. The Tier 1 qualifying liabilities of an authorized institution shall be the sum of the principal amounts, calculated in Hong Kong dollars, of the following items -

Tier 1 qualifying liabilities	Item reference in Part I of the return of Liquidity Position
Net 7-day liabilities to relevant banks	5.(1)(b) - 5.(1)(a) > 0
Net 8 days - 1 month liabilities to relevant banks	{[1.(3)(b) - 5.(1)(b)] - [1.(3)(a) - 5.(1)(a)]} > 0
Other 1-month liabilities	1.(11)

Annex 2

~~Liquidity Return~~ – *Reporting* treatment of *unmatured* securities transactions and repo/reverse repo

The reporting treatment for securities transactions under various scenarios is presented below. It should be noted that where there is a reference to the reporting of a qualifying liability and the liability is due to a relevant bank, the amount shall be set off against amounts due from relevant banks for reporting purpose.

~~Background~~

~~1. The liquidity return aims to gather information to monitor the liquidity position of an institution in a quantitative perspective as specifically defined in the Fourth Schedule to the Banking Ordinance. The reporting requirements attached to the various items are therefore designed to reflect the change in the liquidity position of the institution arising from such items. These may differ from the general accounting treatments of such items as the latter are not designed specifically for the measurement of liquidity. It is also not unusual for the treatment of specific items to differ between financial reporting and regulatory reporting.~~

~~2. The general accounting treatment of securities transactions poses a particular problem due to the adoption of two different approaches by institutions, i.e. trade date vs. value date accounting. The essence is whether during the period when the deal is committed and pending settlement, it should be booked as a deal done with the creation of account payable/receivable or booked purely as a commitment i.e. off-balance sheet. The Working Group has endorsed the trade date accounting approach and therefore the subject securities of unmatured deals will be booked as having moved from the seller to the purchaser with the creation of the corresponding account receivable/payable.~~

~~3. Securities transactions also commonly involve a repo/reverse repo mechanism where a sale and a purchase deal on the same subject are transacted simultaneously for different value dates. The substance of the transactions can be taken as a collateralised deposit or a collateralised loan, as in reality the repo subject does not move away from the owner, i.e. the party doing the repo. The Working Group has endorsed this substance approach for repo/reverse repo transactions. On this basis the party doing the repo will book a cash inflow (increase of nostro balance) with a corresponding account payable, while the party doing the reverse repo will book a cash outflow (decrease of nostro balance) with a corresponding account receivable. The subject of the transaction will remain booked with the original owner i.e. the party doing the repo throughout the period of the transaction.~~

~~4. Based on the above guiding principles covering both the intention of the liquidity regime and the accounting treatments aimed to reflect the substance of the particular transactions, the reporting requirements of the liquidity return under various scenarios are presented in the following pages. The underlying rationale is also explained where appropriate. Where there is a reference to the reporting of a qualifying liability and the liability is due to a relevant bank, it means the amount will be set off against amounts due from relevant banks for reporting purpose.~~

~~Treatment of~~ Unmatured securities transactions ~~and repo/reverse repo~~

1. Unmatured purchase

   (a) subject is a liquefiable asset

   Report the subject as a liquefiable asset.

   Report the corresponding account payable as a qualifying liability.

   (b) subject is not a liquefiable asset

   No liquefiable asset can be reported.

   Report the corresponding account payable as qualifying liability.

2. Unmatured sale

   (a) subject is a liquefiable asset

   The subject cannot be reported as a liquefiable asset since it has been removed from the reporting institution's books on the trade day. Report the corresponding account receivable as a liquefiable asset on the basis of a net one month liability due from relevant bank or an eligible loan repayment, depending on the type of counterparty and provided the conditions in the Fourth Schedule are fulfilled. The possible change in the amount to be reported due to the different Liquidity Conversion Factor reflects the change in the "liquid quality" of the asset arising from the transaction.

   No qualifying liability arises from the transaction.

   (b) subject is not a liquefiable asset

   Neither the subject nor the corresponding account receivable can be reported as a liquefiable asset. A stricter approach is adopted for the sale of non-liquefiable assets in general (i.e. not restricted to securities) because the inclusion of such account receivables will basically capture the sale of any asset pending settlement. This is not in line with the spirit of the liquidity regime. Non-liquefiable assets can be converted to liquefiable assets by sale only upon the receipt of cash.

   No qualifying liability arises from the transaction.

N.B. Items 1 and 2 assumes that the settlement period of the relevant transaction is within 1 month.

Repo/reverse repo

3. Repo due to unwind within 1 month

(a) repo subject is a liquefiable asset

The repo subject remains in the books of the reporting institution but cannot be reported as a liquefiable asset since it is regarded as "collateral" to secure a "deposit" and not free from encumbrance. If the cash inflow (increase in nostro balance) remains in the liquefiable asset form, the liquidity position will not change significantly because the liquefiable asset has only changed from one form to another. If however the cash inflow is utilised to acquire a non-liquefiable asset, the liquefiable assets will be reduced because a liquefiable asset (the repo subject) has been exchanged for a non-liquefiable one. This treatment ensures that no extra liquefiable asset is created.

The corresponding account payable is not reported as qualifying liability because the future cash outflow will bring in a future liquefiable asset and the liquidity position in essence does not change (apart from the possible difference in LCF). In other words, once the account payable is settled, the repo subject immediately ceases to be "collateral" and can be reported as liquefiable asset.

In summary, both the repo subject and the account payable arising from the repo should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively.

(b) repo subject is not a liquefiable asset

~~Similar to 3(a)~~ The cash inflow (increase in nostro balance) may result in a net increase in liquefiable assets if the funds stay in cash form or are being utilised to acquire a liquefiable asset because a non-liquefiable asset (the repo subject) has exchanged for a liquefiable one. If the funds are utilised to acquire a non-liquefiable asset, there will be no net impact on liquefiable assets as the original subject is also a non-liquefiable asset.

The corresponding account payable is a qualifying liability because the cash outflow will not result in a liquefiable asset and there is no "offsetting" effect.

4. Reverse repo due to unwind within 1 month

The reverse repo subject is effectively regarded as "collateral" pledged by the counterparty for a loan and remains in the books of the counterparty. The cash outflow (decrease in nostro balance) will be reflected in the reduction of liquefiable asset but the corresponding account receivable is a liquefiable asset either in the form of net one month liabilities due from relevant bank or eligible loan repayment, depending on the type of counterparty, provided the conditions in the Fourth Schedule are fulfilled.

No qualifying liability arises from the transaction.

5. Repo due to unwind beyond 1 month

(a) repo subject is a liquefiable asset

~~Similar to item 3(a), the repo subject cannot be reported as liquefiable asset.~~ ***Same consideration of repo subject and cash inflow as in item 3(a).***

No qualifying liability arises from the transaction ~~as yet~~ since the corresponding account payable is only due after 1 month.

(b) repo subject is not a liquefiable asset

Same consideration of ~~liquefiable assets and qualifying liabilities as in item 5(a)~~ ***repo subject and cash inflow as in item 3(b).***

No qualifying liability arises from the transaction since the corresponding account payable is only due after 1 month.

6. Reverse repo due to unwind beyond 1 month

Same as under item 4, report the cash outflow (decrease in nostro balance) as a reduction of the liquefiable asset. However, the corresponding account receivable is not a liquefiable asset since it is a claim due beyond 1 month.

No qualifying liability arises from the transaction.

Repo/reverse repo where risks and rewards are substantially transferred to the buyer

The following reporting treatment is to be applied to repo/reverse repo transactions where securities are sold/purchased subject to a repurchase/resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the buyer and the transaction is separately accounted for as an outright sale/purchase and a commitment to repurchase/sell back. Where the price for the commitment to repurchase/sell back has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.

7. Repo due to unwind within 1 month

(a) repo subject is a liquefiable asset

As the repo subject is sold under an outright transaction, it should not be reported as a liquefiable asset. If the cash inflow arising from the sale of the security (increase in nostro balance) remains in the liquefiable asset form, the liquidity position will not change significantly because the liquefiable asset has only changed from one form to another. If however the cash inflow is utilised to acquire a non-liquefiable asset, the liquefiable assets will be reduced because a liquefiable asset (the repo subject) has been exchanged for

a non-liquefiable one. This treatment ensures that no extra liquefiable asset is created.

The corresponding commitment to repurchase is not reported as qualifying liability because the future cash outflow will bring in a future liquefiable asset and the liquidity position in essence does not change (apart from the possible difference in LCF).

(b) repo subject is not a liquefiable asset

The cash inflow (increase in nostro balance) may result in a net increase in liquefiable assets if the funds stay in cash form or are utilised to acquire a liquefiable asset because a non-liquefiable asset (the repo subject) has been exchanged for a liquefiable one. If the funds are utilised to acquire a non-liquefiable asset, there will be no net impact on liquefiable assets as the original subject is also a non-liquefiable asset.

The corresponding commitment to repurchase is a qualifying liability because the cash outflow will not result in a liquefiable asset and there is no "offsetting" effect.

8. Reverse repo due to unwind within 1 month

(a) Reverse repo subject is a liquefiable asset

As the reverse repo subject is purchased under an outright transaction, it should be reported as a liquefiable asset and the cash outflow arising from the purchase of the security (decrease in nostro balance) will be reflected in the reduction of liquefiable assets.

The future cash inflow brought about by the corresponding commitment to sell back is not reported as a liquefiable asset because it will be offset by the simultaneous future outflow of the liquefiable reverse repo subject.

(b) Reverse repo subject is not a liquefiable asset

The cash outflow (decrease in nostro balance) will be reflected in the reduction of liquefiable assets, as a non-liquefiable asset (reverse repo subject) is acquired in return.

The future cash inflow brought about by the corresponding commitment to sell back should be reported as a liquefiable asset either in the form of net one month liabilities due from relevant bank or eligible loan repayment, depending on the type of counterparty, provided the conditions in the Fourth Schedule are fulfilled.

9. Repo due to unwind beyond 1 month

(a) repo subject is a liquefiable asset

Same consideration of the outright transaction as in item 7(a).

No qualifying liability arises from the transaction since the corresponding commitment to repurchase is only due after 1 month.

(b) repo subject is not a liquefiable asset

Same consideration of the outright transaction as in item 7(b.)

No qualifying liability arises from the transaction since the corresponding commitment to repurchase is only due after 1 month.

10. Reverse repo due to unwind beyond 1 month

(a) Reverse repo subject is a liquefiable asset

Same consideration of the outright transaction in item 8(a).

No qualifying liability arises from the transaction.

(b) Reverse repo subject is not a liquefiable asset

Same consideration of the outright transaction in item 8(b).

No qualifying liability arises from the transaction.