Return of Foreign Currency Position
MA(BS)6

Summary of Proposed Changes

1. Clarification of option positions
(*Completion instructions - Sections A and B*)

As currency option is not the only kind of option that can give rise to foreign currency position, the term "currency options" is replaced by "options transactions giving rise to foreign currency exposures".

2. Uniform adoption of Model User Approach and accordingly, deletion of the Worst Case Approach
(*Return - Part II(b); Completion instructions - Section B items 17 and 19)*

All AIs are to report their positions including options using the Model User approach, which is in fact the delta equivalent approach as reported by AIs in the Return of Interest Rate Risk Exposures. As a result, the section on Worst Case Approach will no longer be required.

3. Addition of a new currency "RMB"
(*Return - new row in Parts I, II and III*)

To capture the RMB positions of banks in Hong Kong.

4. Euro-participating countries
(*Completion instructions – Section A item 6*)

As Greece adopted the Euro currency with effect from 1/1/2001, the country "Greece" is now included in the list of Euro-participating countries.

5. Repo and reverse repo where all the risks and rewards of ownership are substantially transferred to the buyer
(Completion instructions – Section B item 11)

Guidance is now given for the reporting of such repos/reverse repos, in line with the accounting treatment under SSAP24.

6. Back-to-back options and dealings with branches or head office
(Completion instructions – Section B items 22 and 23)

Clarification is now made that the gross amount of options written or held in potential purchases and potential sales should include back-to-back options written and dealings with branches or Head Office.

July 2002

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SECRET

Co. No. MM YY

(For Official Use Only)

under the Banking Ordinance and the Monetary Statistics Ordinance

FOREIGN CURRENCY POSITION OF AN AUTHORIZED INSTITUTION

As at .....
(last day of the month)

Name of Authorized Institution	Date of Submission

The Banking Ordinance and the Monetary Statistics Ordinance

Return required under section 63(2) of the Banking Ordinance and sections 3(2) of the Monetary Statistics Ordinance to be submitted to the Monetary Authority not later than 21 days after the last day of each calendar month.

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 - Foreign Currency Position (excluding options)

(HK$ million)

Currency		Positions of Hong Kong offices						Net long (short) position (b)			
		Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long (short) position	Structural assets (liabilities) (a)	Overseas branches	Subsidiaries (c)	Consolidated position	Consolidated structural assets (liabilities)
		1	2	3	4	5(=1-2+3-4)	6	7	8	9(=5+7+8)	10
US dollars	USD										
Pound sterling	GBP										
Japanese yen	JPY										
Euro	EUR										
Renminbi	***RMB***										
Canadian dollars	CAD										
Swiss francs	CHF										
Australian dollars	AUD										
Singapore dollars	SGD										
New Zealand dollars	NZD										
Gold	GOL										
Foreign currencies not separately specified above											
Hong Kong dollars	HKD										
Sum of net long/short positions											
USD/HKD position											
Adjusted sum of net long/ short positions											

(a) Report the structural positions booked in the Hong Kong offices only.
(b) Columns 7 to 10 are for completion by locally incorporated institutions only.
(c) Banking subsidiaries and others substantially involved in foreign exchange trading.

Part II~~(a)~~ - Foreign Currency Position (Including options ~~- "Model User" Approach~~)

(HK$ million)

Section A

Currency		Net long (short) position	Adjusted options position	Net long (short) position including options
		11	12	13(=11+12)
US dollars	USD			
Pound sterling	GBP			
Japanese yen	JPY			
Euro	EUR			
Renminbi	***RMB***			
Canadian dollars	CAD			
Swiss francs	CHF			
Australian dollars	AUD			
Singapore dollars	SGD			
New Zealand dollars	NZD			
Gold	GOL			
Foreign currencies not separately specified above				
Hong Kong dollars	HKD			
Sum of net long/short positions				
USD/HKD position			Total USD/HKD position	
Adjusted sum of net long/short positions				

Section B

Options written		Options held	
Potential purchases	Potential sales	Potential purchases	Potential sales
14	15	16	17

Part II(b) -Foreign Currency Position (Including options - "Worst Case" Approach)

(HK$ million)

Currency	Section A					Section B			
		Options written		Potential open positions including options		Options written		Options held	
	Net long (short) position	Potential purchases (+)	Potential sales (-)	Potential long	Potential short	Potential purchases	Potential sales	Potential purchases	Potential sales
	11	12	13	14	15	16	17	18	19
US dollars USD									
Pound sterling GBP									
Japanese yen JPY									
Euro EUR									
Canadian dollars CAD									
Swiss francs CHF									
Australian dollars AUD									
Singapore dollars SGD									
New Zealand dollars NZD									
Gold GOL									
Foreign currencies not separately specified above									
Hong Kong dollars HKD									
Sum of net long/short positions		Maximum potential open position							
USD/HKD position		Total USD/HKD position							
Adjusted sum of net long/ short positions		Adjusted potential long/short position							

Part III - Exception Reports

(HK$ million)

Currency		Net long (short) positions/Net or potential open positions including options							
		Date:	Date:	Date:	Date:	Date:	Date:	Date:	Date:
US dollars	USD								
Pound sterling	GBP								
Japanese yen	JPY								
Euro	EUR								
Renminbi	***RMB***								
Canadian dollars	CAD								
Swiss francs	CHF								
Australian dollars	AUD								
Singapore dollars	SGD								
New Zealand dollars	NZD								
Gold	GOL								
Foreign currencies not separately specified above									
Hong Kong dollars	HKD								
Sum of net long/short positions/ maximum potential open position									
USD/HKD position									
Adjusted sum of net long/ short positions/ Adjusted potential long/short position									

Completion Instructions

Return of Foreign Currency Position
Form MA(BS)6

Introduction

This return collects information on authorized institutions' foreign currency positions (including options) as at the last calendar day of each month and the exception reports during the month. The information will form the basis of the supervision of institutions' foreign exchange risk.

A. General instructions

1. This form consists of ~~four~~ ***three*** parts. Parts I and III are for completion by all institutions except that overseas incorporated institutions need not complete columns 7 to 10 of Part I. Part~~s~~ II~~(a) and II(b) are~~ ***is*** for completion only by institutions which have ~~transactions in foreign currency options~~ ***option transactions giving rise to foreign currency exposures***. It should be submitted not later than 21 days after the end of each month. If the submission deadline falls on ~~on~~ a public holiday, it will be deferred to the next working day.

2. In compiling this return, all foreign currency amounts should be translated into HK$ equivalents by using the middle market T/T rates ruling at the close of business on the reporting date.

3. Authorized institutions should agree with the Hong Kong Monetary Authority ("HKMA") guidelines on their overnight open positions in a single currency and in all currencies taken together (i.e. the aggregate overnight open position). For details please refer to the HKMA's policy paper on supervision of foreign exchange risk issued in May 1990.

4. The aggregate overnight open position means:

   (a) in the case of an institution which has not written any ~~foreign currency options~~ ***option transactions giving rise to foreign currency exposures*** - the amount of "Adjusted sum of net long/short positions" reported in column 5 of Part I (for institutions incorporated outside Hong Kong) or column 9 of Part I (for institutions incorporated in Hong Kong); and

   (b) in the case of an institution involved in the writing of ~~foreign currency options:~~ ***option transactions giving rise to foreign currency exposures*** **-**

      ~~(i)~~ the amount of "Adjusted sum of net long/short positions" reported in column 13 of Part II~~(a) if the institution has been approved by the HKMA as a "Model User" in the calculation of its positions arising from currency options; or~~.

~~(ii) the amount of "Adjusted potential long/short positions" reported in column 14/15 of Part II(b) if the institution has not been approved by the HKMA as a "Model User" in the calculation of its positions arising from currency options.~~

5. Institutions should apply consistent policies in compiling the returns. Any change in policies (i.e. different to those used in previous returns) should be notified to the Monetary Authority in a covering note accompanying the return.

6. For the purposes of this return, gold is regarded as one of the foreign currencies, but other precious metals and commodities are not. For positions in the Euro and the national currencies of the Euro-participating countries (which now include Austria, Belgium, Finland, France, Germany, ***Greece***, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain), institutions should report all the positions under "Euro (EUR)". All the long positions in the Euro and the Euro-participating currencies shall be aggregated in arriving at the long position in the Euro. Similarly, the same shall apply in arriving at the short position in the Euro.

B. Specific instructions

Part I - Foreign Currency Position (excluding options)

7. This part reports the open positions of the reporting institution in each individual currency as at the end of the reporting month. ***Foreign currency e***xposures ~~under currency options~~ ***arising from option transactions*** are excluded from this Part.

8. Columns 1 to 6 should be completed by all institutions, whether incorporated in Hong Kong or not.

9. Columns 7 to 10 should be completed by locally incorporated institutions only. For institutions which have no overseas branches and subsidiaries, column 9 will be the same as column 5.

10. Spot transactions (Columns 1 and 2)

- Columns 1 and 2 record all foreign currency assets and liabilities except structural positions and unmatured spot contracts (all unmatured spot and forward securities transactions and all matured but unsettled spot or forward transactions should however be reported here. An exception is given to matured but unsettled contracts under FX margin trading. These contracts are regarded as forward contracts.) Capital and reserves, including balances in the profit and loss account and general provisions, should be reported as liabilities in the base currency of the reporting institution or in the currency in which the capital is denominated. Other provisions should be reported in the currency of the underlying assets.

- While fixed assets should be reported net of depreciation, all other assets and liabilities should be reported on gross basis. For example, the gross amount of a foreign currency loan, instead of the net amount after provisions set aside for it, should be reported in column 1.

11. Forward transactions (Columns 3 and 4)

- Columns 3 and 4 record unmatured spot and forward transactions. They include matured but unsettled contracts under FX margin trading. An exception is provided for securities transactions where trade date approach is adopted. Under this approach the unmatured spot and forward purchases or sales of securities are reported as 'spot transactions'.

- Show the gross figures of all unmatured spot and forward transactions, including undelivered "spot", and "forward" legs of swaps.

- Forward purchases and forward sales include all receivables and payables of principal and/or interest under any foreign currency related contracts. Such contracts should include but are not limited to the following:

  - unmatured spot and forward foreign exchange contracts

  - foreign currency futures contracts (the gross or nominal amounts of the contracts should be reported)

  - foreign currency interest rate futures contracts (the unrealized profits or losses should be .reported)

  - foreign currency interest rate swap contracts (interest receivable and payable according to the best estimate at the reporting date should be reported)

  - forward rate agreements (the best estimated net settlements should be reported)

  - ***where a security is sold subject to a repurchase 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 plus a commitment to repurchase), the security sold under such an agreement should not be reported in the return. The commitment to repurchase should be reported as a forward purchase of the security. Where the price for the commitment to repurchase has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.***

  - ***where a security is purchased subject to a resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the reporting institution (and the transaction is separately accounted for as***

an outright purchase plus a commitment to sell back), the security purchased under such an agreement should be reported as an asset and the commitment to sell back should be reported as a forward sale of the security. Where the price for the commitment to sell back has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.

12. Net long (short) position (Columns 5, 7, 8 and 9)

- Enter in the relevant boxes in columns 5 and 9 the net long (short) positions in individual currencies.

- Enter in columns 7 and 8 the net long (short) positions in individual currencies of the reporting institution's overseas branches and subsidiaries. Do not offset intra group transactions.

- The Hong Kong dollars positions in columns 5 and 9 are balancing figures to bring the total of all net long positions the same as the total of all net short positions. In other words, they should equal and opposite to the net open positions of all other currencies in the boxes above them.

13. Sum of net long/short positions (Columns 5 and 9)

- Enter in the relevant boxes in columns 5 and 9 the sum of either the net long or the net short positions in individual currencies, including the Hong Kong dollars.

- The sum of the net short positions should be the same as the sum of the net long positions.

- Do not put any positive or negative sign to amounts in these boxes.

14. USD/HKD Position (Columns 5 and 9)

- Enter in the relevant boxes in columns 5 and 9 the positions in USD against HKD, which should be computed as follows:

  - If the net open positions in USD and HKD as reported in the same column are of the same sign (e.g. both are short), report a 'zero' in this box.

  - If the net open positions in USD and HKD as reported in the same column are of the opposite sign (e.g. short in USD and long in HKD or vice versa), report the smaller of the two positions in this box, ignoring the sign.

- Do not put any positive or negative sign to amounts in these boxes.

15. Adjusted sum of net long/short positions (Columns 5 and 9)

- The adjusted sum of net long/short positions is calculated as the "sum of net long/short positions" less the "USD/HKD position".

- For institutions which do not write any ~~currency options~~ ***option transactions that give rise to foreign currency exposures***, this net open position should be within the guidelines agreed with the HKMA.

16. Structural assets (liabilities) (Columns 6 and 10)

- Please read carefully paragraphs 8 to 10 of the HKMA's paper on supervision of foreign exchange risk issued in May 1990.

- Report in column 6 any structural position on the institution's books in Hong Kong. Report in column 10 the institution's aggregate structural position i.e. the position reported in column 6 and those structural positions of the reporting institution's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading.

- Structural assets or liabilities include:

  - investments in fixed assets and premises, net of depreciation charges;

  - capital and statutory reserves of overseas branches;

  - investments in overseas subsidiaries and related companies;

  - loan capital, e.g. perpetual subordinated debts.

- Prior approval from HKMA should be obtained for inclusion of any other item as structural assets or liabilities.

Part II~~(a)~~ - Foreign Currency Position (Including Options ~~– "Model User" Approach~~)

17. Part II~~(a)~~ reports the open foreign currency positions of an institution (including positions of its overseas branches and subsidiaries in the case of a locally incorporated institution) ~~which has been approved by the HKMA as a "model user" in the calculation of its exposures~~ arising from ~~currency options~~ ***option transactions***.

Section A - columns 11 to 13

18. Net long (short) position (column 11)

Column 11 is the same as column 5 of Part I (for overseas incorporated institutions) or column 9 of Part I (for locally incorporated institutions).

19. Adjusted options position (column 12)

Enter in column 12 the adjusted value of options held and written (including options involving a HK$ leg) using the ~~formula agreed with the HKMA~~ ***delta equivalent approach (as in reporting the Return of Interest Rate Risk Exposures, Form MA(BS)12).*** Any cover taken on ~~currency~~ option positions in the cash market should be included in Part I of this return.

An institution purchasing options to a limited extent for the purposes of hedging may report only those option contracts which are in-the-money. Instead of reporting their delta equivalent values, it may report the notional value of the option contracts.

20. Net long (short) position including options (column 13)

- Column 13 is the sum of columns 11 and 12.
- The "HKD position", "Sum of net long/short positions", "USD/HKD position" and "Adjusted sum of net long/short positions" should be computed in the same way as those described for columns 5 and 9 of Part I.
- The "adjusted sum of net long/short positions" gives the institution's overall net open position, including those arising from options, which should be kept within the guidelines agreed with the HKMA.

Section B - columns 14 to 17

21. The information sought under columns 14 to 17 is required for statistical purposes only and is not intended to be used to assess an institution's foreign currency positions.

22. Options written - Potential purchases (column 14) and Potential sales (column 15)

Enter in column 14 (column 15) the gross amount of each currency, including HK$, that the reporting institution may be required to purchase or sell under options written. ***The gross amount includes back-to-back options held and dealings with branches or Head Office.***

23. Options held - Potential purchases (column 16) and Potential sales (column 17)

Enter in column 16 (column 17) the gross amount of each currency, including HK$, that the reporting institution may purchase or sell through the exercise of ~~currency options~~ ***option transactions giving rise to foreign currency exposures held. The gross amount includes back-to-back options held and dealings with branches or Head Office.***

~~Part II(b) - Foreign Currency Positions (Including Options - "Worst Case" Approach)~~

24. Part II(b) reports the open foreign currency positions of an institution (including positions of its overseas branches and subsidiaries in the case of a locally incorporated institution) which has not been approved by the HKMA as a "Model Users", in the calculation of its positions arising from currency options.

Section A - columns 11 to 15

25. Net long (short) position (column 11)

Column 11 is the same as column 5 of Part I (for overseas incorporated institutions) or column 9 of Part I (for locally incorporated institutions).

26. Options Written (columns 12 and 13)

- Report in columns 12 and 13 the potential amount of each currency, including HK$, that the institution may be required to purchase and sell under options written. Options contracts, held which are identical in all respects (i.e. as to amount, currencies, exercise date and strike price) to options written can be used to offset the potential purchases and potential sales reported in these columns.

- Any cover taken on currency options positions in the cash market should be reported in Part I of this return.

- For the purposes of calculating exposures, amounts reported in column 12 shall have a positive sign and amounts reported in column 13 shall have a negative sign.

27. Potential Open Positions including options (columns 14 and 15)

- For each currency, enter in column 14 the sum of columns 11 and 12. If this sum is negative, report a 'zero' in this column.

- For each currency, enter in column 15 the sum of columns 11 and 13. If this sum is positive, report a 'zero' in this column. If the sum is negative, ignore the sign and enter the absolute value of the sum.

- If an institution has adopted the "worst case approach" to report its options positions, both its potential long and potential short position in each individual currency should be kept below the guidelines on open position in individual currency agreed with the HKMA.

28. Maximum potential open position (Column 14/15)

Enter in this box the larger of the total of column 14 or 15.

29. Total USD/HKD position (Column 14/15)

~~Enter in this box the total of the USD/HKD position in "cash market" (as shown in column 11) and any position arising from USD/HKD options written.~~

~~30. Adjusted maximum potential long/short position (column 14/15)~~

~~The last box in column 14/15 gives the institution's aggregate overnight open position, including those arising from options business, which should be kept within the guidelines agreed with the HKMA. It is derived by deducting "total USD/HKD position" from the "maximum potential open position".~~

~~Section B - columns 16 and 19~~

~~31. The information sought under columns 16 and 19 is required for statistical purposes only and is not used to assess an institution's foreign currency positions.~~

~~32. Options written - Potential purchases (column 16) and Potential sales (column 17)~~

~~Enter in column 16 (column 17) the gross amount of each currency, including HK$, that the reporting institution may be required to purchase or sell under options written." The gross amount includes back-to-back options written and dealings with branches or Head Office.~~

~~33. Options held - Potential purchase (column 18) and Potential sales (column 19)~~

~~Enter in column 18 (column 19) the gross amount of each currency, including HK$, that the reporting institution may purchase or sell through the exercise of currency options held." The gross amount includes back-to-back options held and dealings with branches or Head Office.~~

Part III - Exception Reports

~~3~~2. This Part should be reported as "nil" if the institution has operated within the guidelines (both on individual currency positions and on the aggregate overnight open position) agreed with the HKMA throughout the reporting month.

~~3~~2. Any breach of the guidelines should be reported in this Part in a chronological order starting from the first blank column on the left hand side of the table. Only the positions that exceed limits need to be reported."

Hong Kong Monetary Authority
(MM/2003)