



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

07 Nov 2006

Supervisory Policy Manual ("SPM") : CA-S-9 Use of Fair Value Option for Financial Instruments

Our Ref: G10/1/7C

7 November 2006

The Chief Executive
All locally incorporated authorized institutions

Dear Sir/Madam,

Supervisory Policy Manual ("SPM") : CA-S-9 Use of Fair Value Option for Financial Instruments

I am writing to inform you that, following consultation with the industry, the HKMA has today issued the above SPM module. This module is a new non-statutory guideline that will apply with effect from **1 January 2007**.

In its consultative paper on the "Determination of Capital Base" issued in December 2005, the HKMA stated its intention to permit fair value gains on financial instruments to be included in an Authorized Institution's (AI's) core capital subject to certain minimum risk management and control standards being met. Subsequently, section 40(2) of Part 3 of the Banking (Capital) Rules has provided that an AI may, with the prior consent of the HKMA, include fair value gains in its core capital. The purpose of the module is to set out the relevant minimum standards which the HKMA requires an AI to have in place with regard to its use of the fair value option (FVO) for this purpose. It also provides information on the supervisory process that the HKMA will use for the assessment of an AI's risk management and controls relating to the use of the FVO.

In developing the module, the HKMA has closely followed the recommendations contained in the paper entitled "Supervisory guidance on the use of fair value option by banks under the IFRS" issued by the Basel Committee on Banking Supervision in June 2006, and has incorporated industry comments. The HKMA emphasizes that the guidance is not intended to set out additional accounting requirements beyond those established by the accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The guidance should also not be taken as indicating a preference by the HKMA for the use either of hedge accounting approaches or the FVO by an AI. The responsibility for compliance with the applicable accounting and disclosure standards rests with the AI's senior management.

The HKMA will keep under review AIs' use of the FVO in practice and, where necessary, will consider the need for enhancements to the content of this module as circumstances require

and if considered appropriate by the HKMA.

On-line access to the module is available under the "Supervisory Policy Manual" icon in the HKMA's public (<http://www.info.gov.hk/hkma/>) and private (<http://www.stet.finnet.hk>) web-sites.

Should you have any questions, please feel free to contact Ms Theresa Kwan at 2878-1093 or Ms Elizabeth Choi at 2878-8279.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

Encl. [CA-S-9](#) (PDF file, 112KB)

c.c. The Chairman, The Hong Kong Association of Banks
 The Chairman, The DTC Association
 FSTB (Attn.: Ms Angelina Kwan)

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