



Supervisory Policy Manual

CA-D-1

Guideline on the Application of the Banking (Disclosure) Rules

V.2 – 06.08.15

This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

Purpose

To provide interpretative guidance to AIs on the application of the Banking (Disclosure) Rules.

Classification

A non-statutory guideline issued by the MA as a guidance note.

Previous guidelines superseded

CA-D-1 “Guideline on the Application of the Banking (Disclosure) Rules” (V.1) dated 30.05.07

Application

To all AIs to which the Banking (Disclosure) Rules apply.

Structure

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PART I - INTRODUCTION

1. Terminology

- 1.1 Abbreviations used in this module have the following meanings:
- “AI” means authorized institution, as defined in section 2 of the Banking Ordinance (Cap. 155);
 - “Capital Rules” means the Banking (Capital) Rules (Cap. 155L);
 - “CAR” means capital adequacy ratio;
 - “CCyB ratio” means countercyclical capital buffer ratio;
 - “Disclosure Rules” or “the Rules” means the Banking (Disclosure) Rules (Cap. 155M);
 - “G-SIB” means global systemically important authorized institution;
 - “HKAS” means Hong Kong Accounting Standards;
 - “HKFRSs” means Hong Kong Financial Reporting Standards issued by the Council of the Hong Kong Institute of Certified Public Accountants pursuant to section 18A of the Professional Accountants Ordinance (Cap. 50);
 - “HQLA” means high quality liquid assets;
 - “IFRSs” means International Financial Reporting Standards;
 - “LCR” means liquidity coverage ratio;
 - “LMR” means liquidity maintenance ratio;
 - “Liquidity position return” means the return relating to liquidity position required to be submitted by an AI to the MA under section 63(2) of the Banking Ordinance;
 - “Liquidity Rules” means the Banking (Liquidity) Rules (Cap. 155Q);



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- “MA” in this module refers to the “Monetary Authority” or “Hong Kong Monetary Authority”, as the context so requires.

- 1.2 All references to parts and sections of the Disclosure Rules have been printed in *italics and underlined* in this module. Where references have been made to specific provisions in the Rules, they may be summarised to avoid unnecessary reproduction of a lengthy quotation.
- 1.3 Unless otherwise stated terminology used in this module follows that of the Disclosure Rules. By virtue of section 2(2) of the Rules, the interpretations in section 2 of the Capital Rules apply equally to the Disclosure Rules save for the provisions of the Disclosure Rules concerning liquidity information disclosures (i.e. sections 30, 30A and 30B, sections 51, 51A and 51B, and sections 103, 103A and 103B) where interpretation must follow the relevant provisions of the Liquidity Rules (i.e. rules 2, 17 and 39). In addition, interpretations which are specific to individual calculation approaches for credit risk¹ or market risk in the Capital Rules also apply equally to the relevant provisions of the Disclosure Rules where appropriate.
- 1.4 A glossary of the complete set of terms used in the Disclosure Rules is provided at **Annex A**.

2. Purpose

- 2.1 The purpose of this module is to assist AIs in understanding the approach being taken by the MA to the implementation of certain sections of the Rules. The guidance given is general in its scope and does not take into account the particular circumstances of any individual AI. Certain sections of the Rules contain exceptions or qualifications which, although not covered by this module, may still apply to particular AIs. In the case of any conflict between this module and the Rules, the Rules prevail. As such, AIs must read this module in conjunction with the Rules and not in place of them.

¹ For example, STC approach, BSC approach, IRB approach etc.



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- 2.2 This guidance should not be regarded as, or be considered a substitute for obtaining, legal advice. An AI should consider obtaining independent legal and other professional advice before taking any action on any matters covered by this guidance, particularly if it has any doubts as to how any aspect of the Rules might apply to it.
- 2.3 The MA will keep under review AIs' implementation of the Disclosure Rules in practice and, where necessary, consider the need to enhance this module as circumstances require.

3. Background

- 3.1 The Disclosure Rules have been made by the MA under section 60A of the Banking Ordinance (Cap. 155). The Rules set out the minimum standards for public disclosure which AIs must make in respect of their state of affairs, including their profit and loss and financial resources (including capital resources and liquidity resources). The Rules apply to both locally incorporated (including those that are subsidiaries of foreign banks) and overseas incorporated AIs, except for those AIs that fall within the exemption criteria (basically for small RLBs and DTCs) as specified in section 3(7) and 3(9) of the Rules.
- 3.2 As the disclosures required under the Rules are minimum standards the MA encourages AIs to make more extensive voluntary disclosures where it is practical for them to do so.
- 3.2.1 AIs which have been exempted from making disclosures under the Rules (see Part II, below) are encouraged to adopt the disclosure standards set out in the Rules to the greatest extent possible;
- 3.2.2 AIs which make their disclosures on a consolidated basis pursuant to section 11(1) of the Rules, are encouraged to make additional disclosures on a solo or solo-consolidated basis regarding their state of affairs and risk profile provided these additional disclosures will assist understanding of, and provide greater clarity



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in relation to, their risk profile (see section 11(3) of the Rules);

- 3.2.3 Als are encouraged to make more detailed or granular disclosures than are required under the Rules. For instance, Als might break down their sector disclosures into more detailed sub-categories, while those using the STC approach to calculate their regulatory capital for credit risk in respect of their non-securitization exposures might disclose the composition of relevant portfolios with more granularity than required under the Rules;
- 3.2.4 Als are also encouraged to make more comprehensive disclosures than the minimum required under the approach they use for calculation of their regulatory capital. For instance, an AI which uses the BSC approach to calculate its credit risk for non-securitization exposures is encouraged to provide supplementary disclosures about its equities activities if they become significant. Similarly, an AI which uses either the BSC or STC approach while transitioning to one of the IRB approaches is encouraged to make more extensive disclosures that would apply to an AI using the IRB approach;
- 3.2.5 An AI is also encouraged to make more frequent disclosures than those required under the Rules providing these additional disclosures would improve the transparency of the AI's risk profile and risk management.
- 3.2.6 In addition to the requirements on comparative information (see paragraphs 13.10 and 19.4), Als are strongly encouraged to build up a data series that will permit trend analysis by users of their disclosures. In this connection, section 6(10A) of the Rules requires a locally incorporated AI to (a) keep a copy of each of its disclosure statements relating to reporting periods ending on or after 30 June 2013 in readily accessible form; and (b) if any such disclosure statement contains



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a prescribed summary, keep a copy of all the disclosures referred to in the prescribed summary in readily accessible form.

- 3.2.7 In view of the increasing demand for greater consistency and comparability in regulatory disclosures among banks across jurisdictions, the Basel III disclosure standards place greater emphasis on the use of standardized disclosure templates. Accordingly the Rules provide that an AI must (a) complete and include in its interim or annual financial statements the standard disclosure templates specified by the MA for making disclosures associated with Basel III (e.g. in relation to regulatory capital, leverage ratio, etc.), or (b) provide a direct link in its interim or annual financial statements to the relevant sections of its website where the full set of completed standard disclosure templates can be found. In this regard, an AI will be required to maintain a "Regulatory Disclosures" section on its website, a direct link to which must be prominently displayed on the website's home page. For ease of reference by users, the Regulatory Disclosures section should ideally include all information required to be disclosed under the BDR (i.e. standard disclosure templates and other regulatory disclosures).

4. Penalties for non-Compliance

- 4.1 An AI which fails to comply with the Rules, unless explicitly exempted by the MA (see Part II, below), will face serious consequences. In particular:-
- 4.1.1 if an AI fails to comply with any requirement in the Rules, every director, every chief executive and every manager of the AI commits an offence that may lead to conviction and the imposition of a financial penalty in accordance with section 60A(4) of the Banking Ordinance;



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- 4.1.2 failure to comply with the requirements in the Rules may constitute a breach of the Seventh Schedule to the Banking Ordinance which requires an AI to make adequate disclosure of certain financial information as one of the criteria for continuing authorization; such breach could be a ground for revocation of authorization; and
- 4.1.3 failure to comply with the requirements in the Rules may result in other supervisory action being taken, that the MA considers appropriate according to the circumstances of each case, including, but not limited to, requiring the AI by notice in writing under section 52(1)(A) of the Banking Ordinance to rectify any errors or omissions in the AI's disclosure statement.

5. Scope

- 5.1 The Rules are intended only to supplement, and not to replace, other disclosure requirements under relevant legislation or accounting and financial reporting standards. Where relevant, an AI should comply with such other disclosure requirements under the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and HKFRSs as applicable.

PART II - APPLICATION OF THE DISCLOSURE RULES

6. Overview (*Part 1 – section 3*)

- 6.1 The Disclosure Rules framework is structured in accordance with the different approaches to the calculation of credit risk for non-securitization exposures contained in the Capital Rules. Unless otherwise specified therein, the Rules apply to AIs as follows: -



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Description	Applicable for Locally Incorporated AIs adopting			Overseas Incorporated AIs
	STC Approach	BSC Approach	IRB Approach	
Part 1 - Preliminary	√	√	√	√
Part 2 - General Requirements	√	√	√	N.A.
Part 3 - Interim financial disclosures	√	√	√	N.A.
Part 4 - Annual financial disclosures	√	√	√	N.A.
Part 5 - Additional disclosures for AIs adopting STC approach	√	N.A.	N.A.	N.A.
Part 6 - Additional disclosures for AIs adopting BSC approach	N.A.	√	N.A.	N.A.
Part 7 - Additional disclosures for AIs adopting IRB Approaches	N.A.	N.A.	√	N.A.
Part 8 - Disclosures for overseas- incorporated AIs	N.A.	N.A.	N.A.	√

N.A. – Not Applicable

7. Application of Parts 2 and 4

- 7.1 Unless explicitly exempted by the MA in accordance with section 3(7) of the Rules, all locally incorporated AIs are required to make disclosures in accordance with Part 2 (general requirements) and Part 4 (annual financial disclosures) for their annual reporting periods.
- 7.2 An AI may be exempted from the application of Parts 2 and 4 if:
- the AI is a deposit-taking company or restricted licence bank; and
 - the AI demonstrates to the satisfaction of the MA that it meets the following criteria (hereafter referred to as the “de minimis criteria”):-
 - it has total assets less provisions of less than HK\$1 billion (or the equivalent amount in any foreign currency); and



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- (ii) it has total deposits from customers of less than HK\$300 million (or the equivalent amount in any foreign currency).

7.3 For the purposes of determining whether an AI meets the de minimis criteria, the MA will make reference to the relevant average of the relevant figures reported by the AI for the relevant period where:

- 7.3.1 “relevant average” means the arithmetic mean (i.e. simple average) of the relevant figures as at the end of each calendar month for the last relevant period of the AI;
- 7.3.2 “relevant figures” means the figures as at the end of each calendar month reported by the AI in its “Return of Assets and Liabilities – MA(BS)1” item 25 “total assets less provisions” and item 6.4 “total deposits from customers”;
- 7.3.3 “relevant period” means each period of 12 calendar months ending on and including the fifth calendar month preceding the close of the AI's financial year.

Illustrative example :

Assume the 2017 financial year of a locally incorporated RLB or DTC ends on 31 December 2017. For the purpose of determining whether an AI falls within the de minimis criteria referred to in paragraph 7.2(b) above, the MA will aggregate the relevant figures reported by the AI to the MA during the relevant period (i.e. 12-month period covering calendar month-ends of September 2016 to August 2017 inclusive) and then divide the aggregate amount by twelve to arrive at a “relevant average”. The MA will make reference to this relevant average figure in assessing whether the RLB or DTC falls within the de minimis criteria referred to in paragraph 7.2(b) above.



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- 7.4 If an AI is exempted from making annual financial disclosures under Part 4 of the Rules, additional disclosures prescribed in Parts 5, 6 and 7 of the Rules do not apply to the AI for as long as it remains exempt.
- 7.5 Parts 2 and 4 (and thus also Parts 5, 6 or 7 as applicable) of the Rules will continue to apply to any non-exempt AI unless at a later date the MA makes a determination that the AI is exempt and notifies the AI of this decision in writing. The MA will not regard a temporary reduction in an AI's assets or deposits to within the de minimis criteria as grounds for exemption. The MA will only consider granting new exemptions where an AI can provide it with a business plan that demonstrates to the satisfaction of the MA that the AI intends to reduce its business to levels that will permit it to be able to continue to meet the de minimis criteria for an "appropriate" period of time in the future (section 3(11)).
- 7.5.1 In practice, what constitutes "an appropriate period" will be subject to the particular circumstances of the AI and be determined on a case-by-case basis, having regard to the nature, size, complexity and structure of its business operations. However, in all circumstances the AI should demonstrate its intention to maintain a scale of operations which will place it below the de minimis criteria for a period of at least several years.
- 7.6 If in future the MA determines that an exempted AI ceases to meet the exemption criteria it will send the AI a notice in writing withdrawing its exemption. Parts 2 and 4 of the Rules will apply to the AI in full from the date specified in the notice. Once an AI ceases to be exempt it will also have to comply with Parts 5, 6 or 7 of the Rules as applicable.
- 7.7 If an AI wishes to be considered for an exemption from Parts 2 and 4 (and Parts 5, 6 or 7 as the case may be) or to ensure that it continues to have the benefit of such exemption, it should write to the MA requesting an assessment of its exemption status.



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8. Application of Part 3

- 8.1 Unless explicitly exempted by the MA, all locally incorporated AIs are required to make disclosures in accordance with Part 3 of the Rules which relates to interim financial disclosures.
- 8.2 The MA can exempt an AI from Part 3 on two grounds, being:
- (a) the AI is exempted from the application of Parts 2 and 4; or
 - (b) the AI is not listed on The Stock Exchange of Hong Kong Limited and is a wholly owned subsidiary of a locally incorporated AI.

An AI cannot be exempted from Part 3 of the Rules by virtue of paragraph 8.2(a) above unless it has also been exempted from Parts 2 and 4 in accordance with the procedure set out in paragraphs 7.2 and 7.3 above. When the MA sends an AI written notification that it is exempt under Parts 2 and 4 of the Rules it will also notify the AI of its exemption under Part 3.

- 8.3 If the MA sends a written notice to an AI to withdraw its exemption from Parts 2 and 4 of the Rules, it will also notify the AI that it has ceased to be exempt from Part 3.
- 8.4 If an AI wishes to be considered for an exemption from Part 3 or to ensure that it continues to have the benefit of such exemption, it should write to the MA requesting an assessment of its exemption status.

9. Application of Part 5

- 9.1 Part 5 applies to any non-exempt locally incorporated AI which uses the STC approach to calculate its credit risk for non-securitization exposures including any non-securitization exposures subject to an exemption under section 12(2)(a) of the Capital Rules.
- 9.2 For disclosures in relation to securitization exposures under Part 5, an AI should include any securitization exposure which is



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subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules.

10. Application of Part 6

- 10.1 Part 6 applies to any non-exempt locally incorporated AI which uses the BSC approach to calculate its credit risk for non-securitization exposures.

11. Application of Part 7

- 11.1 Part 7 applies to any non-exempt locally incorporated AI which uses the IRB approach to calculate its credit risk for non-securitization exposures.
- 11.2 Part 7 does not cover non-securitization exposures which have been exempted under section 12(2)(a) of the Capital Rules, or any securitization exposures subject to the STC(S) approach in consequence of an exemption under section 12(2)(a) of the Capital Rules. These exposures are covered by Part 5 of the Rules (see paragraphs 9.1 and 9.2 above).

12. Application of Part 8

- 12.1 Part 8 only applies to overseas incorporated AIs.
- 12.2 An overseas incorporated AI may be exempted from Part 8 if it demonstrates to the satisfaction of the MA that it meets the following criteria (hereafter referred to as the “de minimis limits”):-
- (a) its local branches, together with its principal place of business in Hong Kong, have in aggregate total assets less provisions of less than HK\$10 billion (or the equivalent amount in any foreign currency); and
 - (b) its local branches, together with its principal place of business in Hong Kong, have in aggregate total deposits from customers of less than HK\$2 billion (or the equivalent amount in any foreign currency).



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For the purposes of determining whether an AI meets the de minimis limits the MA will follow the same procedure laid out in paragraph 7.3 above.

- 12.3 Where the MA determines that an overseas incorporated AI meets the exemption criteria in paragraph 12.2 above it will send the AI written notification that it is exempt from Part 8. Unless an overseas incorporated AI has received such notification, it is required to make the annual and interim disclosures required under Part 8. The MA can withdraw any exemption that has been granted if an AI ceases to meet the exemption criteria in paragraph 12.2 above. In this event, the MA will send the AI written notification that it ceases to be exempt and Part 8 will apply to the AI in full from the date specified in the notification.
- 12.4 If an AI wishes to be considered for an exemption from Part 8 or to ensure that it continues to have the benefit of such exemption, it should write to the MA requesting an assessment of its exemption status.

PART III - GUIDANCE FOR AIs INCORPORATED IN HONG KONG

13. General Requirements (Part 2)

13.1 General

- 13.1.1 This section provides guidance for locally incorporated AIs on the interpretation and practical application of specific provisions in Part 2 of the Rules.

13.2 Disclosure policy (section 5)

- 13.2.1 An AI must establish a clearly defined disclosure policy which should:
- (a) be documented in writing;
 - (b) be approved by the board of directors;



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- (c) set out the approach used by the AI to:
 - (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs, including its profit and loss and its financial resources (including capital resources and liquidity resources); and
 - (ii) ensure that the information disclosed is relevant and adequate to convey an accurate impression of the AI's actual risk profile; and
- (d) state what internal controls it has over the disclosure process (including those internal controls it has for verifying / reviewing the accuracy of the disclosures).

13.3 Medium and location of disclosure and issue of press release (section 6)

13.3.1 Section 6 of the Rules prescribes the manner in which the disclosures should be made, the timing of such disclosures, and the periods for which such information should remain disclosed. Section 6(3) provides an AI with the flexibility of either publishing a disclosure statement that contains all the disclosures required under the Rules, or a prescribed summary of the required disclosures.

"Prescribed summary"

13.3.2 An AI has the option of issuing a "prescribed summary" instead of issuing all the disclosures required under the Rules in a single, comprehensive document. If an AI issues a prescribed summary it need only specify in that summary how and where the general public may readily access the complete disclosures. For example, the prescribed summary may:



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- (a) inform the general public that the complete disclosures can be accessed on the AI's Hong Kong internet website, (the relevant website address (and specific link) for which should be stated); or
- (b) inform the general public that the AI's financial disclosures can be found in the financial statements (or notes to the accounts) in the AI's annual report and accounts (the prescribed summary must make clear the precise location in the annual report where the required disclosures are to be found); or
- (c) refer to a combination of the AI's website and its annual report, as long as it specifies which disclosures are to be found at which location.

13.3.3 Once an AI has issued a prescribed summary it should not change the place where the complete disclosures are to be found (for example by moving them to a location on its website that is different from the link stated in the prescribed summary) unless it also amends the information contained in the prescribed summary.

"Press release"

13.3.4 An AI should, at the same time as it publishes its disclosure statement, issue a press release to the press in Hong Kong either containing or consisting of the statement, in the Chinese and English languages:

- (a) the press release "contains" the disclosure statement if it also contains other information that is not subject to the disclosure requirements of the Rules (for example disclosures made under HKFRSs);
- (b) the press release "consists" of the disclosure statement if it consists only of the information that



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the AI is required to disclose under the Rules (i.e. it does not include disclosures made under other requirements such as HKFRSs).

- 13.3.5 If, in practice, an AI chooses to issue a press release which contains the same summary financial information as it has been accustomed to publishing in past years but which also contains a prescribed summary of its disclosure statement, the MA would consider that this would discharge its obligations under this section of the Rules.

Period of disclosure and time available for inspection

- 13.3.6 As a general record-keeping requirement (i.e. in addition to specific record-keeping requirements prescribed in the Rules²):
- (a) Disclosures made by an AI under the Rules must remain available for public inspection until at least the disclosure statement for the AI's next equivalent reporting period is published in accordance with the Rules. For example,
 - (i) in the case of an annual reporting period, an AI is required to ensure that its disclosure statement (including its complete disclosures if it publishes a prescribed summary) should remain available for inspection until its next annual disclosure statement is published; and
 - (ii) in the case of an interim reporting period, an AI is required to ensure that its disclosure statement remains available for inspection

² These specific requirements are set out in:- (i) sections 24(4) and (5) and sections 45(4) and (5) for capital disclosures; (ii) sections 24A(5) and 45A(5) for leverage ratio disclosures; and (iii) sections 30(2) and 51(2) for liquidity information disclosures, which require an archive of all relevant disclosures be established and maintained for a period starting from and/or until certain specified or valid dates.



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until it publishes its next interim disclosure statement.

- (b) An AI should keep one or more than one copy of the disclosure statement in its principal place of business in Hong Kong and, if practicable, in each local branch of the AI. The AI should make the copy (or copies) available for inspection by the general public during the business hours of the AI at the place where the copy is kept.

13.3.7 An AI should ensure that its annual disclosure statement is available for public inspection from the time that it is published at least until it publishes its next annual disclosure statement and similarly for its interim disclosure statement until it publishes its next interim disclosure statement. Where practicable, the MA strongly encourages AIs to build up a data series that will permit trend analysis by users of their disclosures (please also refer to paragraphs 3.2.6 and 3.2.7 above).

Illustrative example :

Description	Interim Disclosure	Annual Disclosure
Reporting Period	<i>H1/2016</i>	<i>Full year of 2016</i>
Due Date of Publication of Disclosure Statement	<i>e.g. 30 Sep 2016</i>	<i>e.g. 30 Apr 2017</i>
Immediately Succeeding Reporting Period	<i>H1/2017</i>	<i>Full year of 2017</i>
Due Date of Publication of Disclosure Statement for Immediately Succeeding Reporting Period	<i>e.g. 30 Sep 2017</i>	<i>e.g. 30 Apr 2018</i>
Minimum Period Disclosure Statement for Reporting Period Must Be Made Available for Inspection	<i>From 30 Sep 2016 to 29 Sep 2017</i>	<i>From 30 Apr 2017 to 29 Apr 2018</i>



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13.4 Interaction of other requirements (section 7)

- 13.4.1 The MA recognises that AIs are subject to other disclosure requirements in addition to those in the Rules. These include disclosures required under the Companies Ordinance, HKFRSs, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. To some extent the disclosures that AIs are required to make under Parts 3 and 4 of the Rules overlap with these other disclosures (called “external” disclosures in the Rules). To avoid the need for an AI to make duplicative disclosures, section 7 is intended to provide an AI with sufficient flexibility to treat an external disclosure as complying with the requirements of the Rules provided that the criteria under section 7(d) and (e) are met.
- 13.4.2 To the extent that disclosures required under the Rules overlap with those required by the accounting or financial reporting standards referred to in paragraph 13.4.1 above, and the criteria in section 7(d) and (e) are met, the MA will consider that an AI’s disclosure obligations under the Rules have been discharged by its disclosures made under the relevant accounting or financial reporting standards.
- 13.4.3 The MA will endeavour to ensure that the disclosures required under the Rules continue to remain closely aligned with those required under relevant accounting or financial reporting standards, except where there is some overriding reason, based on its statutory duties, for the MA not to do so. To this end the MA will keep the Rules under review to consider whether any amendments are required in the light of future changes to prudential requirements or accounting and financial reporting standards.



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13.5 Verification (section 8)

13.5.1 Disclosures made under the Rules are not required to be audited unless otherwise required by accounting or other statutory requirements. However, the senior management of an AI should ensure that the information being disclosed is subject to scrutiny and internal review to ensure that the information is not false or misleading in any material respect.

13.5.2 The internal review should be conducted by personnel of the AI who are adequately qualified and are independent of the AI's staff or management responsible for preparing the disclosures. For instance, an AI's internal auditor could fulfil the requirement of conducting such an internal review.

13.6 Proprietary and confidential information (section 9)

13.6.1 The MA considers that the disclosure requirements in the Rules strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information. Accordingly, the MA believes that AIs will be able to make all of the required disclosures without having to reveal proprietary and confidential information. However, in exceptional cases, disclosure of certain items of information required in the Rules may seriously prejudice an AI's competitive position. In such cases, an AI may, with the prior consent of the MA, decline to disclose such items (referred to in the Rules as "proprietary or confidential information") provided that the AI:

- (a) discloses general information relating to the subject matter of the relevant disclosure requirements in its disclosure statement; and
- (b) includes a statement in its disclosure statement stating what information it is unable to disclose



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(and the reasons why the specific item of information has not been disclosed).

- 13.6.2 “Proprietary or confidential information” means information which, if it became publicly available, would cause serious prejudice to the competitive position of the AI; or in respect of which the AI has legally binding obligations to its customers or other counterparties which prevent the AI from disclosing the information.
- 13.6.3 Proprietary information may include information on products or systems which, if shared with competitors, would render an AI’s investment in such items less valuable.
- 13.6.4 The MA expects AIs to only apply for this exemption in the most exceptional circumstances and with good reason. Moreover, such an exemption cannot be used to avoid any disclosure obligations an AI may have by virtue of requirements arising from accounting or financial reporting standards.

13.7 Materiality (section 10)

- 13.7.1 The senior management of an AI should ensure that a disclosure made by the AI pursuant to the Rules contains all material information.
- 13.7.2 “Material information” means information –
- (a) which is required to be disclosed under the Disclosure Rules; and
 - (b) which, if it were omitted or misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.
- 13.7.3 An AI should, at a minimum, also observe the following:



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- (a) materiality as defined in both HKAS 1 (Revised January 2015) paragraph 7 and HKAS 8 (Revised February 2014) paragraph 5³, and the discussion of materiality in paragraphs 29 and 31 of HKAS 1 (Revised January 2015); and
- (b) additional guidance in respect of interpreting materiality in the context of financial statements prepared under HKFRS as set out in HKAS 8 (Revised February 2014) paragraph 42.

13.8 Consolidated group level disclosures (section 11)

13.8.1 As a general rule, an AI must make the disclosures required by the Rules on a “consolidated basis” as defined in the Capital Rules (i.e. on the basis of consolidation for regulatory purposes) except in relation to the following disclosure requirements:

- (a) For financial disclosures required under sections 19 to 23; 25 to 27; 34 to 44; 46 to 48; and 52, an AI should use whichever basis of preparation it believes is most appropriate to provide users with clarity in understanding the AI’s state of affairs, including its profit or loss and financial resources. This might include, for example, the basis used by the AI for financial reporting purposes for the period concerned. Thus for disclosures made under these specific sections an AI may use accounting consolidation instead of regulatory consolidation as the basis on which to make the disclosures, provided that the basis of

³ Both HKAS 1 (Revised January 2015) *Presentation of Financial Statements*, paragraph 7 and HKAS 8 (Revised February 2014) *Accounting Policies, Change in Accounting Estimates and Errors*, paragraph 5 define “Material” as follows: “Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”



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consolidation used is clearly stated in the disclosure statement.

- (b) For capital disclosures (sections 24 and 45), an AI is required to disclose information adopting the same basis (i.e. consolidated, solo or solo-consolidated as the case requires) as that used for the purpose of preparing the regulatory return on Capital Adequacy Ratio submitted by the AI to the MA pursuant to section 63(2) of the Banking Ordinance.
- (c) For leverage ratio disclosures (sections 24A and 45A), an AI is required to disclose information adopting the same basis (i.e. consolidated, solo or solo-consolidated as the case requires) as that used for the purpose of preparing the quarterly survey template on Leverage Ratio submitted by the AI to the MA pursuant to section 63(2) of the Banking Ordinance.
- (d) For disclosures concerning its Mainland activities (sections 28 and 49) and currency risk (sections 29 and 50), an AI is required to adopt the same basis as that used for the purpose of preparing the regulatory returns respectively on Mainland activities and on foreign currency position submitted by the AI to the MA pursuant to section 63(2) of the Banking Ordinance.
- (e) For disclosures concerning its liquidity information (sections 30, 30A, 30B, 51, 51A and 51B), an AI should adopt the Hong Kong office basis in making the required disclosures⁴ unless:-
 - (i) the AI is required to calculate its LCR or LMR on a consolidated basis pursuant to rule 11(1)

⁴ The Hong Kong office basis will apply, for example, in cases where the AI concerned is incorporated in Hong Kong but does not have any overseas branch or specified associated entity.



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of the Liquidity Rules⁵, in which case it should adopt the same consolidated basis in making the required disclosures; or

- (ii) paragraph (i) above does not apply to the AI and the AI is required to calculate its LCR or LMR on an unconsolidated basis pursuant to rule 10(1)(b) of the Liquidity Rules⁶, in which case it should adopt the same unconsolidated basis in making the required disclosures.

13.8.2 Although as a general rule, AIs should use regulatory consolidation as the basis for their disclosures in relation to capital, credit risk, market risk, operational risk, equity exposures and interest rate exposures in the banking book, nothing in the Rules precludes an AI from also making disclosures on other bases (e.g. a solo basis or solo-consolidated basis) providing these additional disclosures will assist understanding of, and provide greater clarity concerning its risk profile. By way of further exception to the general rule that an AI should use regulatory consolidation as the basis for its disclosure, if an AI is only required to calculate its total capital ratio on a solo basis, then the AI should make its disclosures on a solo basis⁷.

13.8.3 Similarly for liquidity information disclosures, if an AI is required to make the disclosures on a consolidated basis under paragraph 13.8.1(e)(i) above, the AI may provide the relevant disclosures on additional bases

⁵ Under rule 11(1), the MA may, by notice in writing to a locally incorporated AI that has any associated entity, require the AI to calculate its LCR or LMR on a consolidated basis, which includes the business of the AI and one or more of its associated entities as specified in the notice.

⁶ Under rule 10(1)(b), a locally incorporated AI that has any overseas branch must calculate its LCR or LMR on an unconsolidated basis, which includes the business of the AI and its overseas branches but not its associated entities.

⁷ However, in relation to disclosure requirements under the following sections of the Rules, an AI should refer to the basis of preparation as set out in the respective paragraphs as follows:-

- sections 19 to 23, 25 to 27, 34 to 44, 46 to 48 and 52 of the Rules – paragraph 13.8.1(a)
- sections 28, 29, 49 and 50 of the Rules – paragraph 13.8.1(d)
- sections 30, 30A, 30B, 51, 51A and 51B of the Rules – paragraph 13.8.1(e)



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(e.g. unconsolidated basis or Hong Kong office basis) if this will facilitate market understanding of its liquidity profile.

13.9 Basis of disclosure (section 12)

13.9.1 Disclosures in relation to an AI's regulatory capital / capital charge for credit risk, market risk and operational risk are governed by the calculation approach the AI uses under the Capital Rules. For example, an AI that uses the BSC approach to calculate its regulatory capital for credit risk should make disclosures in accordance with the sections of the Rules relevant to the BSC approach.

13.9.2 In some circumstances an AI might use different calculation approaches to calculate its regulatory capital / capital charge for exposures in different classes, business units, risk categories or parts of its business. In this situation, the disclosures the AI is required to make in respect of its exposures, follows the particular calculation approach the AI uses to calculate its capital charge for those exposures. For example, by reason of being granted an exemption under section 12(2)(a) of the Capital Rules, an AI may calculate its regulatory capital for credit exposures falling within a particular class using the STC approach, but use the Foundation IRB approach to calculate its regulatory capital for credit exposures in all the other classes. In this instance, the disclosure requirements in respect of the credit exposures in the class for which the AI uses the STC approach, are those in Part 5. The disclosure requirements in respect of the credit exposures in the classes for which it uses the Foundation IRB approach, are those in Part 7.

13.9.3 In rare circumstances an AI might change the approach it uses to calculate its regulatory capital for credit risk, or capital charge for market risk or operational risk in the course of a reporting period. For instance, an AI might migrate from the STC approach to the



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Foundation IRB approach to calculate its credit risk for its sovereign exposures during a financial year. In this case the AI should make disclosures on the basis of the approach it is using on the reporting date, i.e. it should make credit risk disclosures for sovereign exposures on the basis of the Foundation IRB approach under Part 7.

13.10 Comparative information (section 13)

13.10.1 As a general rule, an AI is required to provide comparative information to accompany its quantitative disclosures. Except in the case of profit and loss information and liquidity information, the comparative information to be provided is the like quantitative information from the AI's immediately preceding annual reporting period. For profit and loss information and liquidity information, the comparative information should be as follows:

- (a) if the relevant disclosure relates to an annual reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding annual reporting period;
- (b) if the relevant disclosure relates to an interim reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding interim reporting period.

Illustrative example :

Locally Incorporated AI	P & L Information & Liquidity Information		Disclosure items other than P & L Information & Liquidity Information	
	Reporting Date	Comparative Information	Reporting Date	Comparative Information
Interim disclosure	30/9/2016	30/9/2015 (i.e. IPIRP))	30/9/2016	31/3/2016 (i.e. IPARP)



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Annual disclosure	31/3/2017	31/3/2016 (i.e. IPARP)	31/3/2017	31/3/2016 (i.e. IPARP)
<u>Assumptions -</u> - AI's financial year (FY) begins on 1 April. - Interim disclosure for reporting period in respect of FY 2016 : 1/4/2016 – 30/9/2016 - Immediately preceding interim reporting period ("IPIRP") : 1/4/2015 – 30/9/2015 - Annual disclosure for reporting period in respect of FY 2016 : 1/4/2016 – 31/3/2017 - Immediately preceding annual reporting period ("IPARP"): 1/4/2015 – 31/3/2016				

13.10.2 There are some exceptions to the requirement to provide the comparative information referred to above. The first exception applies where the AI cannot provide the comparative information required because the Rules did not previously apply to the AI (and hence it made no like quantitative disclosures in previous reporting periods which can be used as comparative information). This will be the case, for example, for an AI which is newly authorized as an AI. In such case the AI is only required to ensure that a quantitative disclosure is accompanied by information which is equivalent to the comparative information referred to in paragraph 13.10.1 above, if it is practicable for the AI to provide such equivalent information.

13.10.3 Another exception applies when, for its current annual reporting period, an AI uses a different calculation approach to calculate its regulatory capital for credit risk, or capital charge for market risk or operational risk, from that used in its preceding annual reporting period. In this instance, an AI is not required to provide comparative information with the quantitative disclosures for which the calculation approach has changed. For example, if an AI uses the STC approach to calculate its credit risk for sovereign exposures in a financial year and then uses the Foundation IRB approach for such exposures in the subsequent financial year, then for the purposes of its disclosure statement covering the subsequent financial year, the AI is not required to disclose comparative information



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along with the quantitative disclosures it makes in respect of its sovereign credit risk exposures. In these circumstances, however, an AI is required to ensure that the quantitative disclosure is accompanied by a statement explaining why comparative information has not been disclosed.

13.10.4 Likewise, when certain new provisions in the Rules (e.g. those incorporated to implement disclosure requirements associated with the Basel III standards or local prudential requirements) are first applied to AIs, an AI is generally not required to disclose the comparative information in its first interim or annual disclosures provided that the interim or annual disclosures are accompanied by a statement explaining why comparative information has not been disclosed. However, where practicable, an AI should accompany the disclosures with information which is an appropriate substitute for the comparative information referred to in paragraph 13.10.1 above in order to facilitate analyses basis by users.

13.10.5 An AI should notify its case officer if it falls within any of the exceptions described in paragraphs 13.10.2 and 13.10.3 above.

13.10.6 Where the comparative information provided contains a material restatement of information, the AI must ensure that the related quantitative disclosure is accompanied by a statement giving the nature of, and the reasons for, the restatement.

13.11 Frequency (section 14)

13.11.1 Except where otherwise required under the Rules for certain items (see, for example, paragraph 13.11.2 below), an AI should make disclosures in accordance with Part 4, and additional disclosures under Part 5, 6 or 7, as applicable, in respect of the AI's most recently completed financial year. An AI to which Part 3 applies should make disclosures in respect of the 6-month



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period immediately after the close of the AI's most recently completed financial year.

13.11.2 Pursuant to sections 24(6) and 45(6) of the Rules, an AI should, as soon as is practicable, update the disclosure of the full terms and conditions of all instruments included in its capital base when:

- (a) a new capital instrument is issued and included in its capital base; or
- (b) there is a redemption, conversion or write-down, or any other material change in the nature of a capital instrument included in its capital base.

13.11.3 As some risk factors can change quite rapidly, an AI is encouraged to make more frequent disclosures than those required under the Rules providing these additional disclosures would improve the transparency of the AI's risk profile and risk management.

13.12 Compliance (section 16)

13.12.1 An AI's disclosure statement should also contain such other information as is necessary to ensure that the information contained in the disclosure statement is not false or misleading in any material respect, and that the operations of the AI are clearly explained. For example, an AI may disclose additional qualitative information such as information on its liquidity / funding management or risk management practices, etc to enhance the understanding of the users of its disclosure statement.

13.12.2 In exceptional circumstances it may not be possible for an AI to make a disclosure required by the Rules due to circumstances beyond its control. Such circumstances might include a major computer failure or global internet disruption. In this case an AI should, after consultation with the MA, include in its disclosure statement:



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- (a) a statement that it is unable to make the disclosure and the reasons why it is unable to do so; and
- (b) information which is the closest available alternative to that required to be disclosed under the Rules.

In these circumstances the AI should also obtain the MA's prior consent before publishing its disclosure statement.

14. Interim and Annual Financial Disclosures to be made by AIs Incorporated in Hong Kong

14.1 General

- 14.1.1 This section provides guidance for locally incorporated AIs in relation to the making of interim and annual financial disclosures pursuant to Parts 3 and 4 of the Rules.
- 14.1.2 To the extent that interim or annual financial disclosures required under the Rules overlap with those required under the applicable accounting or financial reporting standards, and the criteria in section 7(d) and (e) are met, the MA will consider that an AI's disclosure obligations under the Rules have been discharged by disclosures made under the relevant accounting or financial reporting standards. The MA encourages AIs to include disclosure items relating to interim or annual financial disclosures required under the Rules in their financial statements or in the notes to the accounts, as appropriate.
- 14.1.3 The interim and annual financial disclosures required under the Rules represent minimum disclosure requirements. They do not preclude an AI from providing additional disclosure or further analytical breakdown in addition to that required under the Rules,



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if the AI reasonably believes that providing such would give a user greater clarity and understanding of the AI's risk profile.

14.2 Income statement and equity information (Part 3 – section 19; Part 4 – section 35); Balance sheet information (Part 3 – sections 20 to 22; Part 4 – sections 36 to 38)

14.2.1 An AI should follow the applicable accounting standards in preparing the income statement, equity and balance sheet information required to be disclosed pursuant to sections 19 to 22 (for interim financial disclosures) or sections 35 to 38 (for annual financial disclosures) of the Rules.

14.2.2 In preparing its disclosure in relation to these sections, an AI should observe the MA's guidance given next to the respective section references listed in the table below:

Item	Section Reference in <u>Part 3</u>	Section Reference in <u>Part 4</u>	MA's Guidance
(a)	<u>19(1)(a)(i)</u>	<u>35(1)(a)(i)</u>	An AI should disclose net gains or net losses on financial assets or financial liabilities showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39 ⁸ .
(b)	<u>19(1)(d)</u>	<u>35(1)(d)</u>	An AI should disclose interest income on impaired financial assets accrued in accordance with HKAS 39.
(c)	<u>20(a)(iii)</u>	<u>36(1)(a)(iii)</u>	An AI should disclose the carrying value

⁸ HKAS 39 *Financial Instruments: Recognition and Measurement*



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Item	Section Reference in <u>Part 3</u>	Section Reference in <u>Part 4</u>	MA's Guidance
			of financial assets showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(d)	<u>20(a)(v)</u>	<u>36(1)(a)(v)</u>	An AI should disclose the provisions for impaired loans and receivables, including collective provisions ⁹ and specific provisions, in accordance with HKAS 39.
(e)	<u>20(b)(iii)</u>	<u>36(1)(b)(iii)</u>	An AI should disclose the carrying value of certificates of deposit issued showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(f)	<u>20(b)(iv)</u>	<u>36(1)(b)(iv)</u>	An AI should disclose the carrying value of issued debt securities showing separately those that are: (A) designated at fair value through profit or loss upon initial recognition; and (B) classified as held for trading, in accordance with HKAS 39.
(g)	<u>20(b)(v)</u>	<u>36(1)(b)(v)</u>	An AI should disclose deferred taxation in accordance with HKAS 12 ¹⁰ .

⁹ For the avoidance of doubt, collective provisions do not include any allowance for impairment loss ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped.

¹⁰ HKAS 12 *Income Taxes*



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“Financial assets or financial liabilities measured at fair value through profit or loss”

- 14.2.3 The term “financial assets or financial liabilities measured at fair value through profit or loss” as defined in the Rules is intended to carry the same meaning as that contained in HKAS 39. Derivatives are included in this term by virtue of sub-paragraph (a) of the definition which includes any financial assets that are classified by the AI as held for trading.

“Investment property”

- 14.2.4 The definition of “investment property” in the Rules is intended to carry the same meaning as that contained in HKAS 40¹¹. Under paragraph 6 of HKAS 40 (Revised June 2014), a property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model for the asset recognized. Accordingly, if an AI can demonstrate that a property interest held under an operating lease has met the accounting definition of an investment property in line with HKAS 40 (Revised June 2014), the AI may treat such property interest as complying with the definition of “investment property” for the purposes of the Rules.

“Specific provisions” and “collective provisions”

- 14.2.5 The definitions of “specific provisions” and “collective provisions” in the Capital Rules, which also apply to the Disclosure Rules, are intended to carry the same respective meanings as the definitions in HKAS 39 for “individually assessed impairment” allowance (in the case of specific provisions) and “collectively assessed impairment” allowance (in the case of collective

¹¹ HKAS 40 *Investment Property* (Revised June 2014)



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provisions). Accordingly, an AI should use the concepts criteria and methodology for assessing impairment loss as set out in HKAS 39 for the purpose of determining the disclosures it has to make for “specific provisions” and “collective provisions¹²” for the purpose of the Disclosure Rules.

“Placements with banks”

14.2.6 The term “bank” as defined in section 2(1) of the Capital Rules does not include a central bank which now falls within the definition of “sovereign”. Hence, if an AI has any placements with central banks or other non-bank financial institutions, the AI should make separate disclosures in respect of those placements (instead of including them in “placements with banks”) if the AI reasonably believes that providing such separate disclosures would provide greater clarity and understanding of its risk profile.

“Value of collateral”

14.2.7 An AI should make reference to the illustration at **Annex B** for the determination of the value of collateral for disclosure purposes.

14.3 Capital disclosures (Part 3 – section 24; Part 4 – section 45)

14.3.1 An AI should disclose information regarding its capital base as set out in sections 24(2) and 45(2) of the Rules covering, inter alia, constituents of the capital base, their full reconciliation to items reported in the balance sheet in the AI's published financial statements, the main features and the full terms and conditions of regulatory capital instruments and the capital adequacy ratios of the AI. Where applicable, these disclosures

¹² For the avoidance of doubt, collective provisions do not include any allowance for impairment loss ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped.



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should be made by using any standard disclosure templates specified by the MA pursuant to section 6(1)(ab) of the Rules for the purpose.

- 14.3.2 An AI is required, unless otherwise approved by the MA, to publish on its website the full terms and conditions of all instruments included in its capital base. Smaller AIs which do not have their own websites must seek the MA's approval to fulfil the disclosure requirement by alternative means (i.e. making use of the websites of their parent companies for the disclosures or including the disclosures in their own interim or annual disclosure statements, as the case may be).

14.4 Leverage ratio disclosures (Part 3 – section 24A; Part 4 – section 45A)

- 14.4.1 An AI should disclose information regarding its leverage positions as set out in sections 24A and 45A of the Rules covering, inter alia, the key breakdowns of the exposure measure, the Tier 1 capital, and the leverage ratio of the AI; a summary reconciliation of the AI's balance sheet assets as reported in the AI's published financial statements; and an explanation of the key drivers of the material changes in the AI's leverage ratio for the current reporting period as compared to the immediately preceding reporting period. Where applicable, these disclosures should be made by using any standard disclosure templates specified by the MA pursuant to section 6(1)(ab) of the Rules for the purpose.

14.5 Countercyclical capital buffer ratio disclosures (Part 3 – section 24B; Part 4 – section 45B)

- 14.5.1 An AI should disclose information regarding its countercyclical capital buffer ratio ("CCyB ratio") as set out in sections 24B and 45B of the Rules covering, inter alia, the CCyB ratio applicable to it ("AI specific CCyB ratio"), and the CCyB ratio applicable in each



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jurisdiction in which the AI has private sector credit exposures relevant to the calculation of the AI specific CCyB ratio, as well as the geographical breakdown of the sum of the AI's risk-weighted amounts in respect of the said private sector credit exposures. Where applicable, these disclosures should be made by using any standard disclosure templates specified by the MA pursuant to section 6(1)(ab) of the Rules for the purpose.

14.6 General disclosures (**Part 3 – section 25; Part 4 – section 46**)

“International claims”

14.6.1 An AI is required, as set out in sections 25(1) and 46(7) of the Rules, to disclose a breakdown of its international claims by major countries or geographical segments in accordance with:

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, official sector, non-bank private sector (of which non-bank financial institutions and non-financial private sector should be separately disclosed) and others (i.e. “unallocated by sector” referred to in the “Return of International Banking Statistics – MA(BS)21A & B”) (sections 25(1) or 46(7) of the Rules).

14.6.2 An AI should disclose the basis of the country or geographical segment classification used for the disclosure of its international claims.

14.6.3 An AI should make reference to the Completion Instructions for the “Return of International Banking Statistics – MA(BS)21” in the determination of international claims. An AI should however take note that the compilation of the disclosure template for international claims may necessitate collection of risk transfer information allocated by types of counterparties



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outside the existing HKMA regulatory returns. In this regard, an AI should consider enhancing its internal management information systems to facilitate this information collection process.

- 14.6.4 An illustration and detailed guidance of the disclosure required in respect of international claims is provided at **Annex C**.

14.7 Sector information (Part 3 – section 26; Part 4 – section 47)

- 14.7.1 An AI should disclose the gross amount of loans and advances to customers, broken down into various sectors as set out in section 26(1) or 47(1).
- 14.7.2 Further guidance on how the various types of loans and advances should be included in the respective sectors as well as how the disclosures should be made is provided at **Annex D**. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A”.
- 14.7.3 The MA encourages AIs to disclose additional credit risk information for the various sectors set out in section 26(1) or 47(1). For example, an AI could further breakdown the various sectors into more detailed sub-categories if it reasonably believes that providing these additional disclosures will give a user of the disclosure greater understanding and clarity in relation to the AI’s risk profile. However, the AI has to ensure that the aggregate of such further breakdown is consistent with the relevant figure disclosed in the AI’s balance sheet.
- 14.7.4 An AI should disclose the extent to which the loans and advances to customers referred to in paragraph 14.4.1 above are covered by collateral or other security (section 26(2) or 47(2)). For this purpose, the AI should disclose either the percentage that the value of collateral or other security represents of those loans and advances, or the absolute amounts of the loans



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and advances to customers which are covered by collateral or other security.

- 14.7.5 For the required disclosures by “counterparty type” or “industry sector” under section 26(3) or 47(3), an AI should make the disclosures based on its internal management classifications rather than based on the sectors referred to in section 26(1) or 47(1) or any other supervisory definition of counterparty type or industry sector. The AI should make disclosures in respect of that counterparty type or industry sector if loans and advances to customers to it constitute not less than 10% of the AI’s total amount of loans and advances to customers.

14.8 Overdue or rescheduled assets (Part 3 – section 27; Part 4 – section 48)

- 14.8.1 An AI should make disclosures on overdue and rescheduled assets pursuant to the requirements in section 27 or 48 of the Rules.
- 14.8.2 Further guidance on the (i) classification and definition of overdue and rescheduled assets; and (ii) disclosure of the value of collateral held against overdue loans and advances, is provided at Annex E and Annex B respectively.

14.9 Mainland activities (Part 3 – section 28 ; Part 4 – section 49)

- 14.9.1 An AI should disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material. An AI should make reference to the Completion Instructions for the “Return of Mainland Activities – MA(BS)20” for the categories of non-bank counterparties and the type of direct exposures to be reported.
- 14.9.2 An illustration of the disclosure required for Mainland activities is provided at Annex F.



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14.10 Currency risk (**Part 3 – section 29; Part 4 – section 50**)

14.10.1 An AI should disclose its foreign currency exposures which arise from trading, non-trading and structural positions pursuant to the requirements in section 29 or 50. An AI should make reference to the Completion Instructions for the “Return of Foreign Currency Position – MA(BS)6” for the types of foreign currency positions and the amounts to be reported.

14.10.2 An illustration of the disclosure required in respect of currency risk is provided at **Annex G**.

14.11 Liquidity information disclosures (**Part 3 – sections 30, 30A and 30B; Part 4 – sections 51, 51A and 51B**)

General (sections 30 and 51)

14.11.1 These two sections prescribe the general requirements applicable to liquidity information disclosures, including the basis of disclosure that must be adopted by locally incorporated AIs as set out in sections 30(3) to (5) and 51(3) to (5) of the Rules. See paragraph 13.8.1(e) above for more details.

14.11.2 Consistent with section 6 of the Rules (see paragraph 13.3 above), locally incorporated AIs must disclose their liquidity information in the manner set out in sections 30(1) and 51(1) of the Rules.

Category 1 institution (sections 30A and 51A)

14.11.3 Pursuant to sections 30A(1) and (2) and 51A(1) and (2) of the Rules, a category 1 institution is required to (a) disclose the average value of its LCR and related information for each quarter in each reporting period¹³ ending after 31 December 2014; and (b) make the

¹³ For interim reporting, the required disclosures relate to the quarter ending on an interim reporting date and the immediately preceding quarter. For annual reporting, the required disclosures relate to the quarter ending on an annual reporting date and each of the three immediately preceding quarters.



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required disclosures by using any standard disclosure template specified by the MA (to the extent that the template covers the relevant disclosure items) pursuant to section 6(1)(ab) of the Rules for the purpose.

14.11.4 For the purposes of paragraph 14.11.3, the average value of a category 1 institution's LCR is to be calculated based on the arithmetic mean of the AI's LCR as at the end of each working day in the quarter, and the calculation methodology and instructions set out in the liquidity position return, pursuant to sections 30A(3) and 51A(3) of the Rules. If the AI has practical difficulty in complying with this requirement, it may under sections 30A(4) and 51A(4) of the Rules calculate the average value of its LCR for each quarter preceding 1 January 2017, based on the arithmetic mean of the month-end LCR reported in its liquidity position return for each month during the quarter.

14.11.5 For the purposes of paragraph 14.11.3, other related information required to be disclosed by a category 1 institution includes:

- (i) the average values of the components, specified in the standard disclosure template, contributing to the average value of the AI's LCR; and
- (ii) information (e.g. key drivers of material changes in the AI's disclosed LCR) that is considered by the AI as significant to the calculation of its LCR.

Relevant disclosure requirements are specified in sections 30A(5) and (6) and 51A(5) and (6) of the Rules.

14.11.6 A category 1 institution is also required under sections 30A(7) and 51A(7) of the Rules to disclose information relating to its approach to liquidity risk management that is necessary and relevant to the understanding of its liquidity risk position and liquidity management.



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Category 2 institution (sections 30B and 51B)

- 14.11.7 Pursuant to sections 30B(1) and (2) and 51B(1) and (2) of the Rules, a category 2 institution is required to disclose the average value of its LMR for each reporting period ending after 31 December 2014, with the disclosed value being calculated based on the arithmetic mean of the average value of its LMR reported in its liquidity position return for each month during the reporting period.
- 14.11.8 A category 2 institution is also required under sections 30B(3) and 51B(3) of the Rules to disclose information relating to its approach to liquidity risk management that is necessary and relevant to the understanding of its liquidity risk position and liquidity management.
- 14.11.9 For a category 2 institution whose financial year does not end on 31 December, its first annual and/or interim reporting period in 2015 will straddle 2014 and 2015. In such cases, the AI is required to disclose the average value of its LMR for the reporting period concerned only in respect of those months in the period that fall on or after 1 January 2015 when the LMR came into effect. While the AI is not required to disclose the average value of its liquidity ratio¹⁴ in respect of those months in the reporting period preceding 1 January 2015, the AI is strongly encouraged to voluntarily disclose such information in order to maintain the continuity of liquidity disclosure and facilitate market analysis of the disclosed information.

¹⁴ The liquidity ratio refers to the statutory minimum liquidity ratio specified under section 102 of the Banking Ordinance, which was replaced by the LMR on 1 January 2015.



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15. Additional Guidance for Annual Financial Disclosures

15.1 General

- 15.1.1 This section provides guidance for locally incorporated AIs in making annual financial disclosures pursuant to Part 4 of the Rules.

15.2 Principal accounting policies (section 34)

- 15.2.1 An AI should disclose the principal accounting policies it uses in the preparation of its financial statements. These disclosures should include the accounting treatment of fees and expenses relating to loans and advances (including whether any incentives relating to residential mortgage loans or other loans and advances have been written off or amortized) where such fees and expenses are material pursuant to section 34(2)(c). “Incentives” in this context would include the monetary value of rebates, both cash and non-cash, in respect of mortgage loans.

Examples of non-cash rebates include, but are not limited to, the following:-

- waiver of legal assignment fee;
- waiver of fire insurance policy premium in the initial year; and
- waiver of monthly instalment repayments in the initial month.

Examples of cash rebates include, but are not limited to, the following:-

- other forms of monetary incentives or benefits (e.g. mortgage interest subsidies or reimbursement/subsidies of legal fees, stamp duty, or commission for property agents).



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15.3 Income statement and equity information (section 35)

15.3.1 An AI should disclose any material amount –

- (a) set aside for provisions with the exception of provisions that relate to depreciation, renewals or diminution in the value of assets; or
- (b) withdrawn from such provisions and not applied for the purposes thereof.

15.3.2 For the purposes of paragraph 15.3.1 above, an AI –

- (a) is not required to break down the movements in provisions into asset classes but is required to break down the movements into collective provisions¹⁵ and specific provisions; and
- (b) should disclose particulars of –
 - (i) the amount of new provisions charged to the profit and loss in the annual reporting period for losses on impaired loans and receivables;
 - (ii) the amount of provisions released back to the profit and loss in the annual reporting period;
 - (iii) the amount of loans and receivables which were written off in the annual reporting period;
 - (iv) the amount of receivables in the annual reporting period in respect of loans and

¹⁵ For the avoidance of doubt, collective provisions do not include any allowance for impairment loss ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped.



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receivables which were written off in previous years; and

- (v) the amount of foreign exchange adjustments, if any, in the annual reporting period.

15.4 Provisions supplementary to balance sheet information (section 37)

15.4.1 An AI should disclose a breakdown of the residual contractual maturity of its assets and liabilities (section 37(6) to (8)). Such breakdown should be based on the remaining period to the contractual maturity date of the asset or liability concerned.

15.4.2 Further guidance on maturity classification is provided at Annex H.

15.5 Fair value (section 41)

15.5.1 Except for the exceptions specified in section 41(2), an AI should disclose the fair value of each class of its financial assets and financial liabilities in a way which permits such fair value to be compared with the carrying value of each such class. An AI is expected to make disclosures in accordance with HKFRS 13¹⁶ for the purposes of complying with section 41.

15.6 Cash flow statement (section 42)

15.6.1 An AI should disclose a cash flow statement in accordance with HKAS 7.¹⁷ The cash flow statement should be the same as that included in the AI's audited annual accounts as lodged with the MA pursuant to section 60 of the Banking Ordinance.

¹⁶ HKFRS 13 *Fair Value Measurement*

¹⁷ HKAS 7 *Cash Flow Statements*



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15.7 Related party transactions (section 43)

15.7.1 “Related party” as defined in Part 4 of the Disclosure Rules is intended to have the same meaning as the same term contained in HKAS 24. In particular, an AI may apply the definition of “key management personnel”¹⁸ in HKAS 24 for the purposes of interpreting sub-paragraph (d) of the “related party” definition in the Rules which refers to “a member of the key management personnel” of the AI. Sub-paragraph (e) of the definition in the Rules also incorporates the substance of the definition “close members of the family of a person”¹⁹ as contained in HKAS 24.

15.7.2 For the reasons referred to in paragraph 15.7.1, the MA is generally likely to consider that an AI’s disclosure obligations under the Rules will have been discharged by disclosures in respect of related party transactions made by the AI in accordance with HKAS 24.

15.8 Disclosure requirements for Global Systemically Important Authorized Institutions (G-SIBs) (section 45C)

15.8.1 An AI should disclose information regarding its group’s systemic importance if it falls into any of the following categories:

- (a) it is designated as a G-SIB by the MA in the reporting period or was designated as a G-SIB by the MA in the immediately preceding annual reporting period; or

¹⁸ “Key management personnel” is defined in HKAS 24 as “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity”.

¹⁹ “Close members of the family of a person” is defined in HKAS 24 as “those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include: (a) that person’s children and spouse or domestic partner; (b) children of that person’s spouse or domestic partner; and (c) dependants of that person or that person’s spouse or domestic partner”.



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- (b) the AI's consolidation group had, at the immediately preceding 31 December, a leverage ratio exposure measure exceeding the Hong Kong Dollar equivalent of 200 billion Euro, and the MA directs the AI to make the requisite disclosure.

15.8.2 Information to be disclosed includes the AI's group figures in relation to the twelve indicators used in the Basel Committee's G-SIB assessment methodology. However, it should be noted that this disclosure requirement may be updated from time to time following any review by the Basel Committee.

15.8.3 An AI which is designated as G-SIB is required to disclose its specific G-SIB higher loss absorbency ("HLA") ratio (or Domestic Systemically Important Authorized Institutions HLA ratio if higher) as part of its disclosures in the standard disclosure template specified by the MA for the purpose of making the AI's capital disclosures (see paragraph 14.3.1).

15.9 General disclosures (section 46)

Segmental reporting

15.9.1 An AI should make disclosures in respect of its major business activities pursuant to the requirements of section 46(1) to (5). "Major business activity", in relation to an AI, means the business activity constitutes not less than 10% of the total amount of the AI's -

- (a) total operating income (net of interest expense);



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- (b) profit or loss before impairment losses and specific provisions and collective provisions²⁰ for impaired assets;
- (c) profit or loss after impairment losses and specific provisions and collective provisions for impaired assets; or
- (d) profit or loss before taxation.

15.9.2 Further guidance on the general basis of segmental reporting is provided at **Annex I**.

15.9.3 According to section 46(4), where not less than 10% of an AI's:

- (a) total operating income (net of interest expense);
- (b) profit or loss before taxation;
- (c) total assets;
- (d) total liabilities; or
- (e) contingent liabilities and commitments

is booked in a single country or geographical segment (defined by internal management classifications for internal reporting purposes – for example, Asia Pacific Region excluding Hong Kong) the AI should disclose, for the item specified in each of sub-paragraphs (a) to (e) above, the absolute amount in respect of the country or geographical segment, as the case requires. An illustration of the disclosure required is provided at **Annex J**.

²⁰ For the avoidance of doubt, collective provisions do not include any allowance for impairment loss ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped.



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- 15.9.4 An AI should disclose the fees and commission income attributable to a product line if that product line constitutes not less than 10% of the total amount of fees and commission income of the AI (*section 46(6)*). The AI is expected to provide a breakdown of its product lines on a basis which is consistent with the one used for internal management purposes and which meets the applicable accounting disclosure requirements.

Examples of product lines include, but are not limited to, the following:-

- *credit lines;*
- *corporate advisory;*
- *investment management and trustee services; and*
- *guarantees and indemnities.*

16. Additional Annual Disclosures to be made by AIs using STC Approach

16.1 General

- 16.1.1 This section provides guidance to locally incorporated AIs which use the STC Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to *Part 5* of the Rules.

16.2 Capital adequacy (*section 55*)

- 16.2.1 An AI should disclose its capital requirements separately for each class of exposures in respect of which it uses the STC approach, as well as its capital requirements for securitization exposures (*section 55(b) and (c)*). An AI should make disclosures for *section 55(b) and (c)* by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT** expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s



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minimum total capital ratio imposed by the MA) for this purpose.

- 16.2.2 An AI may refer to paragraphs 16.4.3 and 16.4.4 below for further guidance on disclosures in relation to “each class of exposures”.

16.3 General qualitative disclosures (section 56)

- 16.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

- 16.3.2 The following must also be included in the description:

- (i) The titles or positions of the members of the board of directors or the senior management members who:-
 - (a) oversee risk management;
 - (b) set the strategy and policy for managing each type of principal risk; and
 - (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are operating effectively.

- (ii) The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide



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descriptions of the analytical techniques used for assessing the risk profile and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any internal credit risk measurement and management processes.

- (iii) The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.
- (iv) The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its credit risk management function, the segregation of duties in key credit functions, the use of independent risk control units and the use of credit risk mitigation techniques such as collateral, netting, guarantees and credit derivative contracts.
- (v) The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.
- (vi) The particulars of its operational controls.
- (vii) The role of internal audit.

16.4 Credit risk: specific disclosures (section 57)

- 16.4.1 An AI should make quantitative disclosures for each separately disclosed class of exposures covered by the STC approach, including the total amount of such exposures in each class, the total amount of outstanding exposures in each class after the effect of recognized credit risk mitigation (distinguishing between exposures which have an ECAI issue specific rating and those which do not), the respective risk-weighted amounts of such exposures in each class,



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and the total amount of credit exposures that are risk-weighted at 1,250% (section 57(f)). For these purposes, the total amount of exposures mean the principal amount for on-balance sheet exposures, or the credit equivalent amount or default risk exposure for off-balance sheet exposures, as applicable, net of specific provisions.

- 16.4.2 Where the period-end figures for outstanding exposures disclosed in accordance with the requirements described in the above paragraph are not genuinely representative of the AI's risk positions (e.g. where the period-end figures happen to be exceptionally large or small or where significant fluctuations in the figures were observed during the period), the AI should supplement such disclosure with meaningful average figures for the period and disclose the way in which the average figures are arrived at in order to facilitate users' understanding of its risk profile.
- 16.4.3 An example of the disclosure requirements described in paragraphs 16.4.1 and 16.4.2 above is provided at **Annex K**.
- 16.4.4 It is not mandatory for an AI to follow the specimen disclosure template at **Annex K** in making its disclosures. However, if the disclosure template is not used, the AI should ensure that it consistently applies the same reporting methodology in complying the requirements in Part 5. For example, if an AI discloses the total exposures for each class of exposures without segregating on- and off-sheet exposures, the AI should apply the same reporting methodology consistently for each reporting period to facilitate period-to-period comparison.

16.5 General disclosures for counterparty credit risk-related exposures (section 58)

- 16.5.1 An AI should disclose the methodology it uses to assign internal capital and credit limits for counterparty credit



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exposures in respect of its counterparty credit risk arising from securities financing transactions and derivative contracts booked in its trading book or banking book (section 58(1)(a)). An AI is expected to comply with the supervisory standards as set out in SPM Module CA-G-5 for assessing and managing internal capital needs.

16.6 Credit risk mitigation (section 59)

- 16.6.1 An AI should disclose the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute the AI's credit risk mitigation (section 59(1)(d)). For this purpose, "creditworthiness" means any credit quality information relating to the type of guarantor or counterparty disclosed such as ratings by international recognized rating agencies etc. that the AI considers useful in showing the quality of the credit risk mitigation it uses.
- 16.6.2 Under section 59(2) an AI should disclose its total exposure (taking into account on- or off-balance sheet netting) covered by recognized collateral, recognized guarantees or recognized credit derivative contracts. The relevant amounts should be net of any haircuts required under the Capital Rules. The total exposure means the principal amount for on-balance sheet exposures, or the credit equivalent amount for off-balance sheet exposures net of specific provisions. The disclosures should be made separately for each class of exposures; for guidance on exposure classes an AI should also refer to paragraphs 16.4.3 and 16.4.4 above.



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17. Additional Annual Disclosures to be made by AIs using BSC Approach

17.1 General

17.1.1 This section provides guidance to locally incorporated AIs which use the BSC Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to Part 6 of the Rules.

17.2 Capital adequacy (section 67)

17.2.1 An AI should disclose its capital requirements for exposures in respect of which it uses the BSC approach, as well as its capital requirements for securitization exposures (section 67(a) and (b)). An AI should make disclosures for section 67(a) and (b) by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT** expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s minimum total capital ratio imposed by the MA) for this purpose.

17.3 General qualitative disclosures (section 68)

17.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

17.3.2 The following must also be included in the description:

- (i) The titles or positions of the members of the board of directors or the senior management members who:



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- (a) oversee risk management;
- (b) set the strategy and policy for managing each type of principal risk; and
- (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk management policies and systems; and the extent to which these are operating effectively.

- (ii) The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide descriptions of the analytical techniques used for assessing the risk profile and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any internal credit risk measurement and management processes.
- (iii) The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.
- (iv) The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its credit risk management function, the segregation of duties in key credit functions, the use of independent risk control units and the use of credit risk mitigation techniques such as collateral, netting, guarantees and credit derivative contracts.
- (v) The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.



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(vi) The particulars of its operational controls.

(vii) The role of internal audit.

17.4 Interest rate exposures in banking book (section 71)

17.4.1 An AI should, in respect of its interest rate exposures which arise from its banking book positions, disclose:

- (a) the nature of the risk;
- (b) the key assumptions it uses in its measurement of the risk (including assumptions regarding loan repayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value for significant upward and downward interest rate movements broken down, if relevant, by currency.

17.4.2 For the purpose of sub-paragraph (d) above, an AI is required to follow the methodology set out in the Completion Instructions for the “Return of Interest Rate Risk Exposures – MA(BS)12” for the disclosure of the impact of interest rate movements on its earnings or economic value.

18. Additional Annual Disclosures to be made by AIs using IRB Approach

18.1 General

18.1.1 This section provides guidance to AIs incorporated in Hong Kong which use the IRB Approach to calculate their credit risk for non-securitization exposures and which are required to make additional annual disclosures pursuant to Part 7 of the Rules.



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18.2 Capital adequacy (section 74)

18.2.1 An AI should disclose its capital requirements separately for each IRB class or IRB subclass, as well as its capital requirements for securitization exposures (section 74(1)(b) and (3)). An AI should make disclosures for section 74(1)(b) and (3) by multiplying the risk-weighted amount derived from the relevant calculation approach **by 8%**. An AI is **NOT** expected to disclose its actual “*regulatory capital*” (i.e. risk-weighted amount multiplied by the AI’s minimum total capital ratio imposed by the MA) for this purpose.

18.3 General qualitative disclosures (section 75)

18.3.1 An AI should disclose a description of the main types of risk which arise from its business, including credit, market, operational, liquidity, interest rate and foreign exchange risk (called “principal risks” in the Rules). The description should cover the policies, procedures and controls the AI uses for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to these principal risks.

18.3.2 The following must also be included in the description:

- (i) The titles or positions of the members of the board of directors or the senior management members who:-
 - (a) oversee risk management;
 - (b) set the strategy and policy for managing each type of principal risk; and
 - (c) set the means for ensuring that such strategy and policy is implemented.

An AI should include the role of specialized board committees in reviewing the adequacy of risk



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management policies and systems; and the extent to which these are operating effectively.

- (ii) The methods an AI uses to identify and measure the various types of principal risk. Using credit risk as an example, an AI should provide descriptions of the analytical techniques used for assessing the risk profile and structure of the credit portfolio and in identifying credit risk concentrations. It should also include the use it makes of any internal credit risk measurement and management processes.
- (iii) The particulars relating to the approval of transactions (including the delegation of credit authority) and the approval process for new products and activities.
- (iv) The methods an AI uses to monitor and control its principal risks. Using credit risk as an example, an AI should describe the structure of its credit risk management function, the segregation of duties in key credit functions, the use of independent risk control units and the use of credit risk mitigation techniques such as collateral, netting, guarantees and credit derivative contracts.
- (v) The use of limits for controlling its principal risks. For example, limits on large exposures and credit risk concentrations.
- (vi) The particulars of its operational controls.
- (vii) The role of internal audit.

18.4 Credit risk: disclosures on risk assessment (section 78)

- 18.4.1 An AI should, for each IRB class or IRB sub-class of exposure, disclose the amount of exposures (including the EAD of on-balance sheet exposures and off-



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balance sheet exposures) separately for each IRB calculation approach used by the AI to which the exposures concerned are subject (section 78(1)).

- 18.4.2 Where the period-end figures for outstanding exposures disclosed in accordance with the requirements described in the above paragraph are not genuinely representative of the AI's risk positions (e.g. where the period-end figures happen to be exceptionally large or small or where significant fluctuations in the figures were observed during the period), the AI should supplement such disclosure with meaningful average figures for the period and disclose the way in which the average figures are arrived at in order to facilitate users' understanding of its risk profile.

18.5 General disclosures for counterparty credit risk-related exposures (section 80)

- 18.5.1 An AI should disclose the methodology it uses to assign internal capital and credit limits for counterparty credit exposures in respect of its counterparty credit risk arising from securities financing transactions and derivative contracts booked in its trading book or banking book (section 80(1)(a)). An AI is expected to comply with the supervisory standards as set out in SPM Module CA-G-5 for assessing and managing internal capital needs.

18.6 Credit risk mitigation (section 81)

- 18.6.1 An AI should disclose the main types of guarantor and credit derivative counterparty and their creditworthiness for the recognized guarantees and recognized credit derivative contracts which constitute the AI's credit risk mitigation (section 81(1)(d)). For this purpose, "creditworthiness" means any credit quality information relating to the type of guarantor or counterparty disclosed such as ratings by international recognized rating agencies etc. that the AI considers useful in showing the quality of the credit risk mitigation it uses.



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- 18.6.2 Under section 81(2) an AI should disclose its total exposure (taking into account on- or off-balance sheet netting) covered by recognized collateral, recognized guarantees or recognized credit derivative contracts. The relevant amounts should be net of any haircuts required under the Capital Rules. The total exposure means the principal amount for on-balance sheet exposures, or the credit equivalent amount for off-balance sheet exposures net of specific provisions. The disclosures should be made separately for each IRB class of exposures.

PART IV - GUIDANCE FOR AIs INCORPORATED OUTSIDE HONG KONG

19. Disclosures to be made by AIs Incorporated Outside Hong Kong

19.1 General

- 19.1.1 This section provides guidance for overseas incorporated AIs on the interpretation and practical application of specific provisions in Part 8 of the Rules. It also provides guidance for these AIs in relation to the making of interim and annual financial disclosures pursuant to Part 8 of the Rules.

19.2 Medium and location of disclosure and issue of press release (section 88)

- 19.2.1 Section 88 of the Rules prescribes the manner in which the disclosures should be made, the timing of such disclosures, and the periods for which such information should remain disclosed. Section 88(2) provides an AI with the flexibility of either publishing a disclosure statement that contains all the disclosures required under the Rules, or a prescribed summary of the required disclosures.



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“Prescribed summary”

19.2.2 An AI has the option of issuing a “prescribed summary” instead of issuing all the disclosures required under the Rules in a single, comprehensive document. If an AI issues a prescribed summary it need only specify in that summary how and where the general public may readily access the complete disclosures. For example, the prescribed summary may:

- (a) inform the general public that the complete disclosures can be accessed on the AI’s Hong Kong internet website (the relevant website address (and specific link) for which should be stated); or
- (b) inform the general public that the AI’s consolidated group level financial disclosures can be found in its consolidated accounts (the prescribed summary must make clear the precise location in the consolidated accounts where the required disclosures are to be found); or
- (c) refer to a combination of the AI’s website and its consolidated accounts, as long as it specifies which disclosures are to be found at which location.

19.2.3 Once an AI has issued a prescribed summary it should not change the place where the complete disclosures are to be found (for example by moving them to a location on its website that is different from the link stated in the prescribed summary) unless it also amends the information contained in the prescribed summary.

“Press release”

19.2.4 An AI should, at the same time as it publishes its disclosure statement, issue a press release to the press



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in Hong Kong either containing or consisting of the statement, in the Chinese and English languages:

- (a) the press release “contains” the disclosure statement if it also contains other information that is not subject to the disclosure requirements of the Rules (for example disclosures made under the relevant accounting standards);
- (b) the press release “consists” of the disclosure statement if it consists only of the information that the AI is required to disclose under the Rules (i.e. it does not include disclosures made under other requirements such as the relevant accounting standards).

19.2.5 If, in practice, an AI chooses to issue a press release which contains the same summary financial information as it has been accustomed to publishing in past years but which also contains a prescribed summary of its disclosure statement, the MA would consider that this would discharge its obligations under this section of the Rules.

Period of disclosure and time available for inspection

19.2.6 As a general record-keeping requirement (i.e. in addition to specific record-keeping requirements prescribed in the Rules²¹):

- (a) Disclosures made by an AI under the Rules must remain available for public inspection until at least the disclosure statement for the AI's next equivalent reporting period is published in accordance with the Rules. For example,

²¹ This refers to section 103(2) for liquidity information disclosures, which requires an archive of all relevant disclosures to be established and maintained for a period starting from certain specified dates.



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- (i) in the case of an annual reporting period, an AI is required to ensure that its disclosure statement (including its complete disclosures if it publishes a prescribed summary) should remain available for inspection until its next annual disclosure statement is published; and
 - (ii) in the case of an interim reporting period, an AI is required to ensure that its disclosure statement remains available for inspection until it publishes its next interim disclosure statement.
- (b) An AI should keep one or more than one copy of the disclosure statement in its principal place of business in Hong Kong and, if practicable, in each local branch of the AI. The AI should make the copy (or copies) available for inspection by the general public during the business hours of the AI at the place where the copy is kept.

19.2.7 An AI should ensure that its annual disclosure statement is available for public inspection from the time that it is published at least until it publishes its next annual disclosure statement and similarly for its interim disclosure statement until it publishes its next interim disclosure statement. Where practicable, the MA strongly encourages AIs to build up a data series that will permit trend analysis by users of their disclosures.

Illustrative example :

<i>Description</i>	<i>Interim Disclosure</i>	<i>Annual Disclosure</i>
<i>Reporting Period</i>	<i>H1/2016</i>	<i>Full year of 2016</i>
<i>Due Date of Publication of Disclosure Statement</i>	<i>e.g. 30 Sep 2016</i>	<i>e.g. 31 Mar 2017</i>
<i>Immediately Succeeding Reporting Period</i>	<i>H1/2017</i>	<i>Full year of 2017</i>



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<i>Due Date of Publication of Disclosure Statement for Immediately Succeeding Reporting Period</i>	<i>e.g. 30 Sep 2017</i>	<i>e.g. 31 Mar 2018</i>
<i>Minimum Period Disclosure Statement for Reporting Period Must be Made Available for Inspection</i>	<i>From 30 Sep 2016 to 29 Sep 2017</i>	<i>From 31 Mar 2017 to 30 Mar 2018</i>

19.3 Materiality (section 89)

19.3.1 The senior management of an AI should ensure that a disclosure made by the AI pursuant to the Rules contains all material information.

19.3.2 "Material information" means information –

- (a) which is required to be disclosed under the Disclosure Rules; and
- (b) which, if it were omitted or misstated, could change or influence the assessment or decision of a person relying on the disclosure concerned for the purposes of making investment or other economic decisions.

19.3.3 An AI which adopts IFRSs or equivalent accounting standards in preparing its financial accounts should, at a minimum, also observe the materiality concept as set out in the IFRSs or equivalent accounting and financial reporting standards.

19.4 Comparative information (section 90)

19.4.1 As a general rule, an AI is required to provide comparative information to accompany its quantitative disclosures. Except in the case of profit and loss information and liquidity information, the comparative information to be provided is the like quantitative information from the AI's immediately preceding reporting period. For profit and loss information related



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to branch information disclosures under Division 3 (or pre-tax profit disclosures related to consolidated group level disclosures under Division 4) and liquidity information, the comparative information should be as follows:

- (a) if the relevant disclosure relates to an annual reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding annual reporting period;
- (b) if the relevant disclosure relates to an interim reporting period, the comparative information required is the like quantitative information from the AI's immediately preceding interim reporting period.

Illustrative example :

AI Incorporated outside Hong Kong	P & L Information & Liquidity Information		Disclosure items other than P & L Information & Liquidity Information	
	Reporting Date	Comparative Information	Reporting Date	Comparative Information
Interim disclosure	30/9/2016	30/9/2015 (i.e. IPIRP)	30/9/2016	31/3/2016 (i.e. IPRP* = last reporting figures)
Annual disclosure	31/3/2017	31/3/2016 (i.e. IPARP)	31/3/2017	30/9/2016 (i.e. IPRP* = last reporting figures)

*IPRP – immediately preceding reporting period

Assumptions -

- AI's financial year (FY) begins on 1 April.
- Interim disclosure for reporting period in respect of FY 2016 : 1/4/2016 – 30/9/2016
 - Immediately preceding interim reporting period ("IPIRP") : 1/4/2015 – 30/9/2015
- Annual disclosure for reporting period in respect of FY 2016 : 1/4/2016 – 31/3/2017
 - Immediately preceding annual reporting period ("IPARP") : 1/4/2015 – 31/3/2016



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- 19.4.2 There are some exceptions to the requirement to provide the comparative information referred to above. The first exception applies where interim consolidated information is not provided by the corporate group of which the AI is a part. In this case, the AI should disclose the annual figures as comparatives in place of interim figures.
- 19.4.3 Another exception applies where the AI cannot provide the comparative information required because the Rules did not previously apply to the AI (and hence it made no like quantitative disclosures in previous reporting periods which can be used as comparative information). This will be the case, for example, for an AI which is newly authorized as an AI. In such case the AI is only required to ensure that a quantitative disclosure is accompanied by information which is equivalent to the comparative information referred to in paragraph 19.4.1 above, if it is practicable for the AI to provide such equivalent information.
- 19.4.4 Likewise, when certain new provisions in the Rules (e.g. those incorporated to implement disclosure requirements associated with the Basel III standards or local prudential requirements) are first applied to AIs, an AI is generally not required to disclose the comparative information in its first interim or annual disclosures provided that the interim or annual disclosures are accompanied by a statement explaining why comparative information has not been disclosed. However, where practicable, an AI should accompany the disclosures with information which is an appropriate substitute for the comparative information referred to in paragraph 19.4.1 above in order to facilitate analyses by users.
- 19.4.5 An AI should notify its case officer if it falls within any of the exceptions described in paragraphs 19.4.2 and 19.4.3 above.



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19.5 Frequency (section 91)

19.5.1 An AI should make disclosures in accordance with Part 8 in respect of the AI's most recently completed financial year for annual reporting periods; and in respect of the 6-month period immediately after the close of the AI's most recently completed financial year for interim reporting periods.

19.6 Compliance (section 92)

19.6.1 An AI's disclosure statement should also contain such other information as is necessary to ensure that the information contained in the disclosure statement is not false or misleading in any material respect, and that the operations of the AI are clearly explained.

19.6.2 In exceptional circumstances it may not be possible for an AI to make a disclosure required by the Rules due to circumstances beyond its control. Such circumstances might include a major computer failure or global internet disruption. In this case an AI should, after consultation with the MA, include in its disclosure statement:

- (a) a statement that it is unable to make the disclosure and the reasons why it is unable to do so; and
- (b) information which is the closest available alternative to that required to be disclosed under the Rules.

In these circumstances the AI should also obtain the MA's prior consent before publishing its disclosure statement.

19.7 Income statement information (section 93); Balance sheet information (section 94)

19.7.1 An AI which uses the HKFRSs or IFRSs for the purpose of preparing its report and accounts, is



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expected to use the same accounting standards for the purpose of complying with the disclosure requirements set out in the Rules. However, the Rules do not mandate an AI to use the HKFRS or IFRSs for disclosure purposes if it uses accounting standards other than the HKFRSs or IFRSs for preparing its report and accounts (for example, if the home jurisdiction of the AI is not yet on the IFRSs financial reporting platform). If an AI uses accounting standards other than the HKFRSs or IFRSs for preparing its report and accounts, it may use the relevant accounting concepts in those other accounting standards for the purpose of preparing its disclosures. The AI should, for this purpose, employ concepts in the accounting standards it uses that are most directly equivalent to the disclosure items required under the Rules.²²

- 19.7.2 For the disclosure of income statement information under section 93, an AI may refer to the mapping of the income statement information to the “Return of Current Year’s Profit and Loss Account – MA(BS)1C” set out at Annex L.

“Placements with banks”

- 19.7.3 The term “bank” as defined in section 2(1) of the Capital Rules does not include a central bank which now falls within the definition of “sovereign”²³. Hence, if an AI has any placements with central banks or other non-bank financial institutions, the AI should make separate disclosures in respect of those placements (instead of including them in “placements with banks”) if the AI reasonably believes that providing such separate

²² By way of example, section 94(a)(vii)(D) of the Rules requires an overseas incorporated AI to disclose provisions for impaired loans and receivables. If the accounting standards used by the AI have no concept of impaired loans and receivables, but instead have the concept of provisions for bad and doubtful debts, then the AI should disclose its provisions for bad and doubtful debts for the purpose of section 94(a)(vii)(D).

²³ Although overseas incorporated AIs are not subject to the Capital Rules, the defined terms in section 2 of the Capital Rules apply to the Disclosure Rules by virtue of section 2(2) of the latter.



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disclosures would provide greater clarity and understanding of its risk profile.

“Value of collateral”

19.7.4 An AI should make reference to the illustration at **Annex B** for the determination of the value of collateral for disclosure purposes.

19.8 General disclosures (section 98)

“International claims”

19.8.1 An AI is required, as set out in section 98(1) of the Rules, to disclose a breakdown of its international claims by major countries or geographical segments in accordance with:

- (a) the location of the counterparties; and
- (b) the types of counterparties, broken down into banks, official sector, non-bank private sector (of which non-bank financial institutions and non-financial private sector should be separately disclosed) and others (i.e. “unallocated by sector” referred to in the “Return of International Banking Statistics – MA(BS)21A”) (section 98(1) of the Rules).

19.8.2 An AI should disclose the basis of the country or geographical segment classification used for the disclosure of its international claims.

19.8.3 An AI should make reference to the Completion Instructions for the “Return of International Banking Statistics – MA(BS)21A” in the determination of international claims. An AI should however take note that the compilation of the disclosure template for international claims may necessitate collection of risk transfer information allocated by types of counterparties outside the existing HKMA regulatory returns. In this



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regard, an AI should consider enhancing its internal management information systems to facilitate this information collection process.

- 19.8.4 An illustration and detailed guidance of the disclosure required in respect of international claims is provided at **Annex C**.

19.9 Sector information (**section 99**)

- 19.9.1 An AI should disclose the gross amount of loans and advances to customers, broken down into various sectors as set out in **section 99(1)**.
- 19.9.2 Further guidance on how the various types of loans and advances should be included in the respective sectors as well as how the disclosures should be made is provided at **Annex D**. An AI should make reference to the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A”.
- 19.9.3 The MA encourages AIs to disclose additional credit risk information for the various sectors set out in **section 99(1)**. For example, an AI could further breakdown the various sectors into more detailed sub-categories if it reasonably believes that providing these additional disclosures will give a user of the disclosure greater understanding and clarity in relation to the AI’s risk profile. However, the AI has to ensure that the aggregate of such further breakdown is consistent with the relevant figure disclosed in the AI’s balance sheet.
- 19.9.4 An AI should disclose the extent to which the loans and advances to customers referred to in paragraph 19.9.1 above are covered by collateral or other security (**section 99(2)**). For this purpose, the AI should disclose either the percentage that the value of collateral or other security represents of those loans and advances, or the absolute amounts of the loans



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and advances to customers which are covered by collateral or other security.

19.10 Overdue or rescheduled assets (section 100)

19.10.1 An AI should make disclosures on overdue and rescheduled assets pursuant to the requirements in section 100 of the Rules.

19.10.2 Further guidance on the (i) classification and definition of overdue and rescheduled assets; and (ii) disclosure of the value of collateral held against overdue loans and advances, is provided at Annex E and Annex B respectively.

19.11 Mainland activities (section 101)

19.11.1 An AI should disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material. An AI should make reference to the Completion Instructions for the “Return of Mainland Activities – MA(BS)20” for the categories of non-bank counterparties and the type of direct exposures to be reported.

19.11.2 An illustration of the disclosure required for Mainland activities is provided at Annex F.

19.12 Currency risk (section 102)

19.12.1 An AI should disclose its foreign currency exposures which arise from trading, non-trading and structural positions pursuant to the requirements in section 102. An AI should make reference to the Completion Instructions for the “Return of Foreign Currency Position – MA(BS)6” for the types of foreign currency positions and the amounts to be reported.

19.12.2 An illustration of the disclosure required in respect of currency risk is provided at Annex G.



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19.13 Liquidity information disclosures (sections 103, 103A and 103B)

General (section 103)

19.13.1 This section prescribes some general requirements applicable to liquidity information disclosures by AIs incorporated outside Hong Kong. As required under section 103(3) of the Rules, such AIs are required to adopt the Hong Kong office basis in making the required disclosures.

19.13.2 Consistent with section 88 of the Rules (see paragraph 19.2 above), AIs incorporated outside Hong Kong must disclose their liquidity information in the manner set out in section 103(1).

Category 1 institution (section 103A)

19.13.3 Pursuant to sections 103A(1) and (2) of the Rules, a category 1 institution is required to (a) disclose the average value of its LCR and related information for each quarter in each reporting period²⁴ ending after 31 December 2014; and (b) make the required disclosures by using any standard disclosure template specified by the MA (to the extent that the template covers the relevant disclosure items).

19.13.4 For the purposes of paragraph 19.13.3, the average value of a category 1 institution's LCR is to be calculated based on the arithmetic mean of the AI's LCR as at the end of each working day in the quarter, and the calculation methodology and instructions set out in the liquidity position return, as set out in section 103A(3) of the Rules. If the AI has practical difficulty in complying with this requirement, it may under section 103A(4) of the Rules calculate the average value of its

²⁴ For interim reporting, the required disclosures relate to the quarter ending on an interim reporting date and the immediately preceding quarter. For annual reporting, the required disclosures relate to the quarter ending on an annual reporting date and each of the three immediately preceding quarters.



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LCR for each quarter preceding 1 January 2017, based on the arithmetic mean of the month-end LCR reported in its liquidity position return for each month during the quarter.

19.13.5 For the purposes of paragraph 19.13.3, other related information required to be disclosed by a category 1 institution includes –

- (i) the average values of the components, specified in the standard disclosure template, contributing to the average value of the AI's LCR; and
- (ii) information (e.g. key drivers of material changes in the AI's disclosed LCR) that is considered by the AI as significant to the calculation of its LCR.

Relevant disclosure requirements are specified in section 103A(5) and (6) of the Rules.

19.13.6 A category 1 institution is also required under section 103A(7) of the Rules to disclose information relating to its approach to liquidity risk management that is necessary and relevant to the understanding of its liquidity risk position and liquidity management.

Category 2 institution (section 103B)

19.13.7 Pursuant to section 103B(1) and (2) of the Rules, a category 2 institution is required to disclose the average value of its LMR for each reporting period ending after 31 December 2014, with the disclosed value being calculated based on the arithmetic mean of the average value of its LMR reported in its liquidity position return for each month during the reporting period.

19.13.8 A category 2 institution is also required under section 103B(3) of the Rules to disclose information relating to its approach to liquidity risk management that is necessary and relevant to the understanding of its liquidity risk position and liquidity management.



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19.13.9 For a category 2 institution whose financial year does not end on 31 December, its first annual and/or interim reporting period in 2015 will straddle 2014 and 2015. In such cases, the AI is required to disclose the average value of their LMR for the reporting period concerned only in respect of those months in the period that fall on or after 1 January 2015 when the LMR came into effect. While the AI is not required to disclose the average value of its liquidity ratio²⁵ in respect of those months in the reporting period preceding 1 January 2015, the AI is strongly encouraged to voluntarily disclose such information in order to maintain the continuity of liquidity disclosure and facilitate market analysis of the disclosed information.

²⁵ The liquidity ratio refers to the statutory minimum liquidity ratio specified under section 102 of the Banking Ordinance, which was replaced by the LMR on 1 January 2015.



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Annex A : Glossary

General notes –

1. This Glossary lists all terms which have been defined for the purpose of the Disclosure Rules. It includes terms which are expressly defined in the Disclosure Rules themselves, and terms which are expressly defined in the Capital Rules or the Liquidity Rules and which are applicable to the Disclosure Rules by virtue of sections 2(2), 30(7), 51(7), 54, 66, 73 and 103(5) of the Disclosure Rules.
2. Terms marked with “#” next to them are terms which are only used in the Disclosure Rules in the context of a definition of another defined term.
3. Under the “Source” column, DR means Banking (Disclosure) Rules; CR means Banking (Capital) Rules; and LR means Banking (Liquidity) Rules.

Table 1 – Terms applicable to all Parts of the Banking (Disclosure) Rules

Term	Source
active market	DR (s.2(1))
annual reporting period	DR (s.2(1))
asset sale with recourse	CR (s.2(1))
associate	DR (s.2(1))
available-for-sale	DR (s.2(1))
back-testing	CR (s.2(1))
bank	CR (s.2(1))
banking book	CR (s.2(1))
# basic approach	CR (s.2(1))
# bond	CR (s.2(1))
BSC approach	CR (s.2(1))
# business day	CR (s.2(1))
capital adequacy ratio	CR (s.2(1))
capital charge	CR (s.2(1))



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Term	Source
capital conservation buffer ratio	DR (s.2(1))
capital requirements	DR (s.2(1))
Capital Rules	DR (s.2(1))
cash and balances with banks	DR (s.2(1))
# CCF	CR (s.2(1))
certificate of deposit	DR (s.2(1))
CET1 capital	CR (s.2(1))
CET1 capital ratio	CR (s.2(1))
# collective investment scheme	CR (s.2(1))
collective provisions	CR (s.2(1))
commodity	CR (s.2(1))
# Common Equity Tier 1 capital ratio	CR (s.2(1))
# confidence interval	CR (s.2(1))
consolidated basis* * This term is generally applicable to all parts of the Disclosure Rules except where it is used in the context of liquidity information disclosures, in which case <i>Table 10</i> of this Annex should be referred to for its definition.	CR (s.2(1))
consolidation group	CR (s.2(1))
counterparty credit risk	CR (s.2(1))
# counterparty default risk	CR (s.2(1))
country	CR (s.2(1))
# credit conversion factor	CR (s.2(1))
# credit default swap	CR (s.2(1))
credit derivative contract	CR (s.2(1))
credit enhancement	CR (s.2(1))
# credit event	CR (s.2(1))



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Term	Source
credit protection	CR (s.2(1))
credit risk	CR (s.2(1))
# credit risk components	CR (s.2(1))
current exposure	CR (s.2(1))
current exposure method	CR (s.2(1))
# CVA	CR (s.2(1))
# CVA loss	CR (s.2(1))
# CVA risk	CR (s.2(1))
# debit valuation adjustment	CR (s.2(1))
debt securities	DR (s.2(1))
default risk exposure	CR (s.2(1))
# delivery-versus-payment basis	CR (s.2(1))
delta-weighted position	DR (s.2(1))
deposits and balances from banks	DR (s.2(1))
derivative contract	CR (s.2(1))
direct credit substitute	CR (s.2(1))
disclosure statement	DR (s.2(1))
# domestic public sector entity	CR (s.2(1))
EAD	CR (s.2(1))
early amortization provision	CR (s.2(1))
ECAI	CR (s.2(1))
ECAI issue specific rating	CR (s.2(1))
ECAI issuer rating	CR (s.2(1))
effective interest method	DR (s.2(1))
effective interest rate	DR (s.2(1))



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Term	Source
EL amount	CR (s.2(1))
exception	CR (s.2(1))
exchange controls	CR (s.2(1))
exchange rate-related derivative contract	DR (s.2(1))
exposure type	DR (s.2(1))
# external credit assessment institution	CR (s.2(1))
fair value ²⁶	CR (s.2(1))
financial assets or financial liabilities measured at fair value through profit or loss	DR (s.2(1))
financial concerns	DR (s.2(1))
financial instrument	CR (s.2(1))
# Fitch Ratings	CR (s.2(1))
foreign currency	DR (s.2(1))
# foreign public sector entity	CR (s.2(1))
forward asset purchase	CR (s.2(1))
# forward contract	CR (s.2(1))
forward forward deposits placed	CR (s.2(1))
foundation IRB approach	CR (s.2(1))
futures contract	CR (s.2(1))
gain-on-sale	CR (s.2(1))
general wrong-way risk	DR (s.2(1))
geographical segment	DR (s.2(1))
group of companies	CR (s.2(1))

²⁶ Possible amendment to the fair value definition may be required in the light of future development of the fair value measurement standard.



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Term	Source
guarantee	CR (s.2(1))
haircut	CR (s.2(1))
held-to-maturity investments	DR (s.2(1))
higher loss absorbency ratio	DR (s.2(1))
Hong Kong Internet website	DR (s.2(1))
IMM approach	CR (s.2(1))
IMM(CCR) approach	CR (s.2(1))
# IMM(CCR) approval	CR (s.2(1))
impairment loss	CR (s.2(1))
incorporated	CR (s.2(1))
insurance firm	CR (s.2(1))
# insurance regulator	CR (s.2(1))
interest rate derivative contract	DR (s.2(1))
interim reporting period	DR (s.2(1))
internal capital	CR (s.2(1))
internal model	CR (s.2(1))
internal models approach	CR (s.2(1))
# internal ratings-based approach	CR (s.2(1))
# internal ratings-based (securitization) approach	CR (s.2(1))
investment property	DR (s.2(1))
IRB approach	CR (s.2(1))
IRB class	CR (s.2(1))
IRB(S) approach	CR (s.2(1))
IRB subclass	CR (s.2(1))
LGD	CR (s.2(1))



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Term	Source
# liquidity facility	CR (s.2(1))
Liquidity Rules	DR(s.2(1))
loan capital	DR (s.2(1))
loans and advances to banks	DR (s.2(1))
loans and receivables	DR (s.2(1))
# long settlement transaction	CR (s.2(1))
market risk	CR (s.2(1))
# mark-to-market	CR (s.2(1))
# Moody's Investors Service	CR (s.2(1))
net book value	CR (s.2(1))
# netting set	CR (s.2(1))
non-securitization exposure	CR (s.2(1))
note issuance and revolving underwriting facilities	CR (s.2(1))
notional amount	CR (s.2(1))
obligor	CR (s.2(1))
obligor grade	CR (s.2(1))
operational risk	CR (s.2(1))
option contract	CR (s.2(1))
originating institution	CR (s.2(1))
OTC derivative transaction	CR (s.2(1))
# outstanding default risk exposure	CR (s.2(1))
# over-the-counter derivative transaction	CR (s.2(1))
parent bank	CR (s.2(1))
partly paid-up shares and securities	CR (s.2(1))



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Term	Source
PD	CR (s.2(1))
PD/LGD approach	CR (s.2(1))
pool	CR (s.2(1))
position	CR (s.2(1))
# positive current exposure	CR (s.2(1))
premises and equipment expense	DR (s.2(1))
prior consent	CR (s.2(1))
property-holding shell company	CR (s.2(1))
protection provider	DR (s.2(1))
public sector entity	CR (s.2(1))
publish	DR (s.2(1))
rating system	CR (s.2(1))
recognized credit risk mitigation	CR (s.2(1))
recognized netting	CR (s.2(1))
# reference entity	CR (s.2(1))
# reference obligation	CR (s.2(1))
regulatory capital	CR (s.2(1))
regulatory reserve	CR (s.2(1))
# relevant international organization	CR (s.2(1))
relevant risk	CR (s.2(1))
reporting date	DR (s.2(1))
reporting period	DR (s.2(1))
repossessed asset	DR (s.2(1))
# repo-style transaction	CR (s.2(1))
residential mortgage loan	CR (s.2(1))



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Term	Source
# restricted collective investment scheme	CR (s.2(1))
# restricted foreign public sector entity	CR (s.2(1))
# restricted insurance regulator	CR (s.2(1))
# restricted jurisdiction	CR (s.2(1))
# restricted securities regulator	CR (s.2(1))
risk category	CR (s.2(1))
risk-weighted amount	CR (s.2(1))
risk-weighted amount for credit risk	CR (s.2(1))
# risk-weighted amount for market risk	CR (s.2(1))
# risk-weighted amount for operational risk	CR (s.2(1))
securities financing transaction	CR (s.2(1))
securities firm	CR (s.2(1))
# securities regulator	CR (s.2(1))
securitization exposure	CR (s.2(1))
# securitization issues	CR (s.2(1))
securitization transaction	CR (s.2(1))
senior management	CR (s.2(1))
# servicer cash advance facility	CR (s.2(1))
# SFT	CR (s.2(1))
solo basis	CR (s.2(1))
solo-consolidated basis	CR (s.2(1))
sovereign	CR (s.2(1))
# sovereign foreign public sector entity	CR (s.2(1))
# SPE	CR (s.2(1))
specific provisions	CR (s.2(1))
specific wrong-way risk	CR (s.2(1))



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Term	Source
# Standard & Poor's Ratings Services	CR (s.2(1))
# standardized (credit risk) approach	CR (s.2(1))
# standardized (market risk) approach	CR (s.2(1))
# standardized (securitization) approach	CR (s.2(1))
STC approach	CR (s.2(1))
STC(S) approach	CR (s.2(1))
STM approach	CR (s.2(1))
stress-testing	CR (s.2(1))
surplus provisions	DR (s.2(1))
swap contract	CR (s.2(1))
swap deposit arrangement	DR (s.2(1))
synthetic securitization transaction	CR (s.2(1))
Tier 1 capital	CR (s.2(1))
Tier 1 capital ratio	CR (s.2(1))
Tier 2 capital	CR (s.2(1))
Total capital ratio	CR (s.2(1))
total EL amount	CR (s.2(1))
total eligible provisions	CR (s.2(1))
# total return swap	CR (s.2(1))
trade bills	DR (s.2(1))
trade-related contingency	CR (s.2(1))
trading book	CR (s.2(1))
trading day	CR (s.2(1))
traditional securitization transaction	CR (s.2(1))
transaction-related contingency	CR (s.2(1))



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Term	Source
underlying exposures	CR (s.2(1))
valid bilateral netting agreement	CR (s.2(1))
valid cross-product netting agreement	CR (s.2(1))
# value-at-risk	CR (s.2(1))
VaR	CR (s.2(1))

Table 2 – Terms applicable for Part 4 only of the Banking (Disclosure) Rules

Term	Source
cash flow hedge	DR (s.32)
corporate	DR (s.32)
fair value hedge	DR (s.32)
hedges of net investments in foreign operation	DR (s.32)
lease	DR (s.32)
related party ²⁷	DR (s.32)
related party transaction	DR (s.32)
retained earnings	CR (s.35)

Table 3 – Terms applicable for Part 5 only of the Banking (Disclosure) Rules

Term	Source
credit equivalent amount	CR (s.51(1))

²⁷ Possible amendment to this definition may be required in the light of future amendments to IAS 24 / HKAS 24 *Related Party Disclosures*



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Term	Source
exposure	CR (s.51(1))
principal amount	CR (s.51(1))
recognized collateral	CR (s.51(1))
recognized credit derivative contract	CR (s.51(1))
recognized guarantee	CR (s.51(1))

Table 4 – Terms applicable for Part 6 only of the Banking (Disclosure) Rules

Term	Source
exposure	CR (s.105)

Table 5 – Terms applicable for Part 7 only of the Banking (Disclosure) Rules

Term	Source
advanced IRB approach	CR (s.139(1))
cash items	CR (s.139(1))
corporate	CR (s.139(1))
# credit equivalent amount	CR (s.139(1))
# dilution risk	CR (s.139(1))
# double default framework	CR (s.139(1))
EAD	CR (s.139(1))
EL	CR (s.139(1))
# eligible provisions	CR (s.139(1))
# expected loss	CR (s.139(1))
# expected loss amount	CR (s.139(1))



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Term	Source
exposure	CR (s.139(1))
# exposure at default	CR (s.139(1))
# hedged exposure	CR (s.139(1))
internal models method	CR (s.139(1))
LGD	CR (s.139(1))
# loss given default	CR (s.139(1))
# M	CR (s.139(1))
market-based approach	CR (s.139(1))
maturity	CR (s.139(1))
principal amount	CR (s.139(1))
PD	CR (s.139(1))
# probability of default	CR (s.139(1))
recognized collateral	CR (s.139(1))
recognized credit derivative contract	CR (s.139(1))
# recognized financial collateral	CR (s.139(1))
recognized guarantee	CR (s.139(1))
# recognized IRB collateral	CR (s.139(1))
# retail IRB approach	CR (s.139(1))
revolving	CR (s.139(1))
# risk-weight function	CR (s.139(1))
simple risk-weight method	CR (s.139(1))
specialized lending	CR (s.139(1))
# substitution framework	CR (s.139(1))
supervisory estimate	CR (s.139(1))
supervisory slotting criteria approach	CR (s.139(1))



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Table 6 – Specific terms applicable for disclosure on “Leverage ratio” (Part 3 – section 24A; Part 4 – section 45A of the Banking (Disclosure) Rules)

Term	Source
derivative exposures	DR (s.2(1))
exposure measure	DR (s.2(1))
leverage ratio	DR (s.2(1))
leverage ratio template	DR (s.2(1))
off-balance sheet exposures	DR (s.2(1))
on-balance sheet exposures	DR (s.2(1))
securities financing transaction exposures	DR (s.2(1))

Table 7 – Specific terms applicable for disclosure on “Countercyclical capital buffer ratio” (Part 3 – section 24B; Part 4 – section 45B of the Banking (Disclosure) Rules)

Term	Source
applicable JCCyB ratio	DR (s.2(1))
countercyclical capital buffer ratio	DR (s.2(1))
private sector credit exposures	DR (s.2(1))
RWA _j	DR (s.24B(b)) & CR (s.30)

Table 8 – Specific terms applicable for disclosure on “G-SIBs” (Part 4 – section 45C of the Banking (Disclosure) Rules)

Term	Source
G-SIB	DR (s.2(1))
# global systemically important authorized	CR (s.3E(1))



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Term	Source
institutions	
higher loss absorbency ratio	DR (s.2(1))

Table 9 – Specific terms applicable for disclosure on “International Claims” (Part 3 – section 25; Part 4 – section 46; Part 8 – section 98 of the Banking (Disclosure) Rules)

Term	Source
banks	Return of International Banking Statistics – MA(BS)21A & B
# cross-border claim	Return of International Banking Statistics – MA(BS)21A & B
international claim	DR (s.25(5))
# local claim	Return of International Banking Statistics – MA(BS)21A & B
# non-bank financial institutions	Return of International Banking Statistics – MA(BS)21A & B
non-bank private sector	Return of International Banking Statistics – MA(BS)21A & B
# non-financial private sector	Return of International Banking Statistics – MA(BS)21A & B
official sector	Return of International Banking Statistics – MA(BS)21A & B



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Table 10 – Specific terms applicable for disclosure on “Liquidity information” (Part 3 – sections 30, 30A and 30B; Part 4 – sections 51, 51A and 51B; Part 8 – sections 103, 103A and 103B of the Banking (Disclosure) Rules)

Term	Source
category 1 institution	LR (rule 2(1))
category 2 institution	LR (rule 2(1))
consolidated basis	LR (rule 2(1))
consolidated group	LR (rule 2(1))
derivative contract	LR (rule 39)
haircut	LR (rule 17)
Hong Kong office basis	LR (rule 2(1))
HQLA	LR (rule 2(1))
level 2A assets	LR (rule 2(1))
level 2B assets	LR (rule 2(1))
LCR	LR (rule 2(1))
LMR	LR (rule 2(1))
# liquidity coverage ratio	LR (rule 2(1))
# liquidity maintenance ratio	LR (rule 2(1))
liquidity position return	DR (s.2(1))
Liquidity Rules	DR (s.2(1))
principal amount	LR (rule 17)
total net cash outflows	LR (rule 2(1))
unconsolidated basis	LR (rule 2(1))



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Table 11 – Specific terms applicable for disclosure on “Asset Securitization” (Part 5 – section 60; Part 6 – section 69; Part 7 – section 82 of the Banking (Disclosure) Rules)

Term	Source
# ABCP programme	CR (s.227(1))
# asset-backed commercial paper programme	CR (s.227(1))
credit enhancement	CR (s.227(1))
credit-enhancing interest-only strip	CR (s.227(1))
drawn balance	CR (s.227(1))
early amortization provision	CR (s.227(1))
# excess spread	CR (s.227(1))
gain on sale	CR (s.227(1))
investor	CR (s.227(1))
investors' interest	CR (s.227(1))
originating institution	CR (s.227(1))
originator	CR (s.227(1))
principal amount	CR (s.227(1))
revolving	CR (s.227(1))
re-securitization exposure	CR (s.227(1))
re-securitization transaction	CR (s.227(1))
securitization position	CR (s.227(1))
securitization transaction	CR (s.227(1))
sponsor	CR (s.227(1))
synthetic securitization transaction	CR (s.227(1))
traditional securitization transaction	CR (s.227(1))
# tranche	CR (s.227(1))
underlying exposures	CR (s.227(1))
undrawn balance	CR (s.227(1))



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**Table 12 – Specific terms applicable for disclosure on “Market Risk”
(Part 5 – section 61; Part 6 – section 70; Part 7 – section 83 of the
Banking (Disclosure) Rules)**

Term	Source
comprehensive risk charge	CR (s.281)
# commodity-related derivative contract	CR (s.281)
# debt security	CR (s.281)
# debt-related derivative contract	CR (s.281)
equity	CR (s.281)
# equity-related derivative contract	CR (s.281)
# exchange rate-related derivative contract	CR (s.281)
# general market risk	CR (s.281)
incremental risk charge	CR (s.281)
market risk capital charge	CR (s.281)
position	CR (s.281)
# specific risk	CR (s.281)
stressed VaR	CR (s.281)



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Annex B : Disclosure of Value of Collateral Held Against Overdue Loans and Advances

The following illustrates how an AI should disclose the value of collateral held in respect of its overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion):

HK\$ million

Overdue loans and advances	Outstanding amount of loans and advances	Current market value of collateral	Covered portion	Uncovered portion
A	10	15	10	-
B	10	7	7	3
C	10	-	-	10
Total	30	22	17	13

Minimum information to be disclosed by the AI:

Current market value of collateral held against the covered portion of overdue loans and advances	HK\$ 22 million
Covered portion of overdue loans and advances	HK\$ 17 million
Uncovered portion of overdue loans and advances	HK\$ 13 million

1. The AI should provide sufficient explanation on any material difference between the disclosure amounts of collateral value under the Disclosure Rules and the applicable accounting standards, although line by line reconciliation is not required.
2. Where multiple loans extended to one borrower are in aggregate secured partially by the same collateral, and one of the loans has been overdue for more than 3 months, the proportion of the value of the collateral held against the overdue loan to be disclosed, should be based on the proportion of the



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value of the collateral to the aggregate amount of the loans. For example, if a number of different loans to one borrower are in aggregate 80% secured by the same collateral, it can be assumed that each individual loan, including each individual overdue loan, is also 80% secured. The AI should therefore disclose as the value of the collateral held against the overdue loan 80% of the outstanding amount of the overdue loan. If, however, the current market value of the collateral has fallen to below 80% of the aggregate outstanding amount of the loans, the value of the collateral held against the overdue loan should be adjusted accordingly.



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Annex C : International Claims

The following illustrates the major country or geographical segment breakdown of international claims by types of counterparties which an AI is required to disclose:

	Banks	Official Sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
As at [reporting date]						
1. Developed countries	XX	XX	XX	XX	XX	XX
<i>of which Country A</i>	XX	XX	XX	XX	XX	XX
2. Offshore centres	XX	XX	XX	XX	XX	XX
<i>of which Country B</i>	XX	XX	XX	XX	XX	XX
3. Developing Europe	XX	XX	XX	XX	XX	XX
<i>of which Country C</i>	XX	XX	XX	XX	XX	XX
4. Developing Latin America and Caribbean	XX	XX	XX	XX	XX	XX
<i>of which Country D</i>	XX	XX	XX	XX	XX	XX
5. Developing Africa and Middle East	XX	XX	XX	XX	XX	XX
<i>of which Country E</i>	XX	XX	XX	XX	XX	XX
6. Developing Asia-Pacific	XX	XX	XX	XX	XX	XX
<i>of which Country F</i>	XX	XX	XX	XX	XX	XX
7. International organisations	XX	XX	XX	XX	XX	XX
8. Unallocated by country	XX	XX	XX	XX	XX	XX
As at [last reporting date]						
1. Developed countries	XX	XX	XX	XX	XX	XX
<i>of which Country A</i>	XX	XX	XX	XX	XX	XX
2. Offshore centres	XX	XX	XX	XX	XX	XX
<i>of which Country B</i>	XX	XX	XX	XX	XX	XX
3. Developing Europe	XX	XX	XX	XX	XX	XX
<i>of which Country C</i>	XX	XX	XX	XX	XX	XX
4. Developing Latin America and Caribbean	XX	XX	XX	XX	XX	XX
<i>of which Country D</i>	XX	XX	XX	XX	XX	XX



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	Banks	Official Sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
5. Developing Africa and Middle East	XX	XX	XX	XX	XX	XX
<i>of which Country E</i>	XX	XX	XX	XX	XX	XX
6. Developing Asia- Pacific	XX	XX	XX	XX	XX	XX
<i>of which Country F</i>	XX	XX	XX	XX	XX	XX
7. International organisations	XX	XX	XX	XX	XX	XX
8. Unallocated by country	XX	XX	XX	XX	XX	XX

Note: All figures reported in the above table (or whatever format used) should be on net basis after taking into account the effect of any recognized risk transfer.

1. A major country or geographical segment should be reported if international claims attributable to the country or segment (including Hong Kong) constitute not less than 10% of the AI's total international claims after taking into account any recognized risk transfer. The policy intention is that where the 10% threshold is met in respect of a particular country or a geographical segment, as the case may be, that country or that geographical segment must be singled out for disclosure.
2. Recognized risk transfer, for the purpose of disclosure on international claims, means the risk transfer as described in paragraph 26 of the Completion Instructions for the "Return of International Banking Statistics – MA(BS)21A & B", which refers to the reduction of the AI's exposure to a particular country by an effective transfer of credit risk to a different country with the use of credit risk mitigants (which include guarantees, collateral and credit derivatives).
3. An AI may use the composition of geographical segments set out in the table above or a different composition of geographical segments defined by its internal management classifications for internal reporting purposes.
4. "International claim" refers to the sum of an AI's cross-border claims in all currencies and local claims in foreign currencies determined based on the calculation methodology specified in the "Return of International Banking Statistics – MA(BS)21A & B".
5. An AI should make the disclosure by types of counterparties, broken down



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into banks, official sector, non-bank private sector (of which non-bank financial institution and non-financial private sector should be separately disclosed) and others (i.e. “unallocated by sector” referred to in the “Return of International Banking Statistics”), on a net basis after taking into account the effect of any recognized risk transfer, as shown in the table columns. An AI can refer to the glossary at Table 9 of **Annex A** for the definition of these terminologies.

6. Both locally incorporated and overseas incorporated AIs subject to the Disclosure Rules may use the above suggested template for the purpose of international claims disclosures.



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Annex D : Sector Information

The following sets out guidance for the analysis of gross loans and advances to customers by major sectors:

Sector classification	Advances included in the following item(s) of the Return (Part I)
<i>Loans and advances for use in Hong Kong</i>	
Industrial, commercial and financial:	
▪ Property development	Item B1e
▪ Property investment	Item B2e
▪ Financial concerns	Item H2e
▪ Stockbrokers	Item H3c
▪ Wholesale and retail trade	Item F
▪ Manufacturing	Items A10
▪ Transport and transport equipment	Item G6
▪ Recreational activities	Item D
▪ Information technology	Item E3
▪ Others	Items B3, C, H1, H4c, H5d and H6
Individuals	
▪ Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	Item H5a
• Loans for the purchase of other residential properties	Item H5b
• Credit card advances	Item H5c
• Others	Item H5e
<i>Trade finance</i>	Item J
<i>Loans and advances for use outside Hong Kong</i>	Item K

1. An AI should disclose a breakdown of the gross amount of loans and advances to customers by major sectors in accordance with the categories as set out in the table above. The allocation of loans and advances to customers and the types of loans and advances that should be included in the respective categories should be in accordance with the definitions and the detailed



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descriptions in the Completion Instructions for the “Return of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A” (being the Return referred to in the heading of the second column in the above table).

2. While Part I of MA(BS)2A deals only with the position of the Hong Kong office(s) of an AI, the analysis pursuant to the requirements of the Disclosure Rules should cover all loans and advances to customers of the AI on a consolidated basis where applicable.



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Annex E : Overdue and Rescheduled Assets

The following sets out the criteria which are to be applied in determining overdue and rescheduled assets:

Overdue assets

1. The overdue status of the following assets is to be determined as follows:-
 - a) Loans with a specific expiry date (e.g. a term loan, inward bill loan, advance against trust receipt, packing loan and other loans of similar nature) - these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date. (For multiple loans to a single borrower, e.g. where there are more than one trust receipt loans, report only the one which is overdue according to its overdue period.)
 - b) Consumer loans repayable by regular instalments (e.g. residential mortgage loans, hire purchase loans and personal loans) - these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
 - c) Loans repayable on demand (e.g. demand loans and overdrafts) - these loans should be treated as overdue where one or both of the following conditions are met:
 - i) a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; or
 - ii) the loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).
 - d) Bankers acceptances are to be treated as overdue where either the principal or interest of the instruments are still in arrears after the due dates or maturity dates.
 - e) A bill payable at a determinable date (i.e. usance bill) should be treated as overdue if it remains in arrears after the maturity date. Sight bills/drafts in respect of goods exported from Hong Kong should normally be paid within one week from the date of presentation (or the arrival of the carrying vessel if the buyer is not obliged to pay before the arrival of the goods). However, to allow for



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unforeseeable delays in processing the documents or effecting payments, a grace period of one month will be allowed. These bills should therefore be regarded as overdue if payment is not made within one month after presentation or the arrival of the carrying vessel, as the case may be.

2. The overdue period of a loan which has a determinable due date commences on the date following such due date. The whole amount of a loan is regarded as overdue even if part of it is not yet due and assessment should be made by reference to the earliest due date of such a loan. For example, if the longest overdue instalment of a loan repayable by monthly instalments has been overdue for six months as at the reporting date, the entire amount of the loan should be considered as overdue for six months.
3. Where partial repayment of an overdue loan repayable by monthly instalments is made, to the extent that it is not financed by a new loan extended by the AI for the purpose of repaying the overdue loan, the repayment should be offset against the earliest instalments due. Accordingly, if in the example given in 2 above, the borrower makes a partial repayment reducing the longest overdue instalment to five months, the entire loan may be considered as overdue for five months.
4. If an overdue loan is scheduled to be repaid by a lump sum payment, a partial repayment will not change the overdue status of the remaining loan balance, i.e. the outstanding balance should continue to be treated as overdue with reference to the original due date.
5. An AI should not extend a new loan to a borrower solely for the purpose of repaying an existing overdue loan with the AI. Where the repayment whether partial or whole is financed by a new loan extended by the AI, the overdue status of the initial loan should be considered as unchanged, i.e. as if the new loan and partial repayment had never been made.
6. It is recognised that AIs may decide to increase overdraft limits (or limits of similar facilities) to accommodate the increased financing needs of sound customers. In such cases, the loan would not be regarded as overdue under paragraph 1(c)(ii) above. However, this should only be done on the basis of a well-documented credit evaluation and after the appropriate internal approval has been obtained. An increase in the overdraft limit should not be sanctioned simply to avoid classifying the loan as overdue.



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Rescheduled assets

7. Rescheduled assets refer to loans and other assets that have been restructured and renegotiated between the AI and the borrower because of a deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either in terms of the interest due or the repayment period, are “non-commercial” to the AI. A rescheduled asset will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).
8. The following assets are not regarded as rescheduled even if their repayment terms have been revised:
 - a) Assets rescheduled in response to changes in market conditions provided that at the time of rescheduling, the assets have been serviced normally, the ability of the borrowers to service the assets according to the revised repayment terms is not in doubt and the rescheduled assets are priced at interest rates equal to the current market interest rates for new assets with similar risks.
 - b) Rescheduled assets with revised repayment terms that are, or become, commercial to the AI and where there is reasonable assurance that the borrowers will be able to service all future principal and interest payments on the assets in accordance with the revised repayment terms and the borrowers have serviced all principal and interest payments on the assets in accordance with the revised repayment terms continuously for a reasonable period. A reasonable period of continuing repayments for rescheduled assets with monthly payments (including both interest and principal) would be 6 months. For other rescheduled assets, a period of continuing repayment of 12 months would be considered as reasonable.
9. If a rescheduled asset is taken up by a new obligor, the AI may regard it as a new asset (i.e. no longer a rescheduled asset) and classify it according to the creditworthiness of the new obligor provided that :
 - a) it is restructured with the new obligor on commercial terms;
 - b) the agreed haircut, if any, has been fully written off upon completion of restructuring; and
 - c) it is a genuine restructuring and not merely a transfer of an overdue loan among the borrower’s group companies. The AI must be



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satisfied with the creditworthiness and repayment ability of the new obligor (e.g. the new obligor must have sufficient assets capable of generating adequate funds to repay the outstanding debt) before entering into the restructuring.

10. A rescheduled asset may be upgraded to “special mention” if: i) the agreed haircut has been fully written off and all the potential losses have been fully provided for upon completion of restructuring; and ii) the AI is satisfied that the borrower will be able to service all future principal and interest payments in accordance with the revised repayment terms. Such asset will however continue to be regarded as rescheduled until the borrower has serviced all principal and interest payments on the asset in accordance with the revised repayment terms continuously for a reasonable period (see paragraph 8 above).



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Annex F : Mainland Activities

The following illustrates the disclosure an AI is required to make under the prevailing “Return of Mainland Activities” in respect of its Non-bank Mainland China exposures (being total direct exposures which are material):

Types of Counterparties	Reference – items in Table III Part 3 of MA(BS)20	[A] On-balance sheet exposure HK\$ million (Note 1)	[B] Off-balance sheet exposure HK\$ million (Note 2)	[A] + [B] Total HK\$ million
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	<i>Item (1)</i>			
2. Local governments, local government-owned entities and their subsidiaries and JVs	<i>Item (2)</i>			
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	<i>Item (3)</i>			
4. Other entities of central government not reported in item 1 above	<i>Item (4)</i>			
5. Other entities of local governments not reported in item 2 above	<i>Item (5)</i>			
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	<i>Item (6)</i>			
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	<i>Item (7)</i>			



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Total	<i>Item (8)</i>			
Total assets after provision	<i>Item (9)</i>			
On-balance sheet exposures as percentage of total assets	<i>Item (10)</i>			

Note 1 – i.e. column (5) under the heading “1.4 Total” in Table III, Part 3 of the Return of Mainland Activities

Note 2 – i.e. column (9) under the heading “2.4 Total” in Table III, Part 3 of the Return of Mainland Activities

For the categories of non-bank counterparties and the type of direct exposures to be disclosed, an AI should make reference to the Completion Instructions for the Return of Mainland Activities – MA(BS)20”.



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Annex G : Currency Risk

The following illustrates the disclosure an AI is required to make in respect of its foreign currency exposures which arise from trading, non-trading and structural positions:

Equivalent in millions of HK\$	US\$	Euro	Japanese Yen	Total
a. Spot assets	200	150	500	850
b. Spot liabilities	(100)	(50)	(100)	(250)
c. Forward purchases	350	100	100	550
d. Forward sales	(550)	(400)	(350)	(1,300)
e. Net option position	(100)	(200)	(80)	(380)
f. Net long (short) position (i.e. sum of (a) to (e))	(200)	(400)	70	(530)
	US\$	Can\$	Euro	Total
Net structural position	180	(15)	(40)	125

1. An individual currency should be disclosed if an AI's net position (in absolute terms) constitutes not less than 10% of the AI's total net position in all foreign currencies. Similarly, for an AI's disclosure requirements in respect of its net structural positions (assets less liabilities), an individual currency should be disclosed if the AI's net structural position (in absolute terms) constitutes not less than 10% of the AI's total net structural position in all foreign currencies.
2. An AI may calculate its net options position using either the delta-weighted position (this definition is available in the glossary at **Annex A**) or the AI's internal reporting method, provided that in either case the basis of calculation is clearly stated.
3. For information on the types of foreign currency positions and the amounts to be disclosed, an AI should make reference to the Completion Instructions for the "Return of Foreign Currency Position – MA(BS)6".



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Annex H : Maturity Classification

The following sets out guidance on maturity classification:

1. Where an item is repayable by instalments, the repayments should be reported according to each instalment payment date and amount.
2. Maturity of items of a revolving nature should be reported according to:
 - the earliest date the asset will mature – if the AI has no notice of any intention of renewal by the borrower;
 - the next maturity date – if notice has been received of renewal of the loan or debt securities upon maturity; and
 - the final maturity date of the credit line – if the asset is to be renewed automatically on each rollover date.
3. An AI should report any assets such as loans and debt securities which have been overdue for not more than one month as “Repayable on demand” and an asset which is impaired or which is overdue for more than one month as “within an indefinite period”. Any loan which is repayable on demand (e.g. demand loans and overdrafts) should be treated as overdue where one or both of the following conditions are met:
 - (i) a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; or
 - (ii) the loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).
4. In the case of an asset which is repayable by different payments or instalments, only that portion of the asset which is actually overdue should be reported according to the method indicated above. Any part of the asset which is not due should continue to be reported according to the residual maturity unless the repayment of the asset is in doubt, in which case the amount should be reported as “within an indefinite period”.
5. Unless otherwise indicated, liabilities should be classified according to their earliest maturity. In relation to deposits, this means the first roll-over date or the shortest period of notice required to effect a withdrawal.



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6. An AI should report demand, savings and current account deposits of customers as “Repayable on demand”. Time, call and notice deposits of customers should be classified according to the earliest date on which these deposits may be withdrawn.
7. Negotiable debt instruments issued by the AI which are still outstanding and which can be redeemed before maturity at the holder’s option should be classified in the appropriate maturity bands according to the earliest date for redemption. Perpetual instruments should be reported as “within an indefinite period”.



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Annex I : General Basis of Segmental Reporting

The following sets out the general basis of reporting by geographical segments:

Geographical segments

1. Depending on both an AI's activities and the nature of the markets concerned, reportable geographical segments may be based on continents, other regional areas, whether compatible for geographical or economic reasons, and/or individual countries. An AI's operations within Hong Kong should be considered to be a separate geographical segment.

Intra-group items

2. AIs will need to determine, in the light of their individual circumstances, whether it would be more meaningful to include or exclude intra-group items when preparing segmental information. Where the individual segmental analysis is shown inclusive of intra-group transactions, it will be necessary to show separately the aggregate of intra-group items deducted in order to reconcile with the consolidated totals for profits and assets.

General

3. Where an AI operates predominantly in one geographical segment, the AI needs only indicate the geographical segment in which the AI predominantly operates.
4. Where an item of revenue, expense, or assets cannot reasonably be allocated to a segment, no allocation should be made. Instead the unallocated amount should be adjusted against the revenue, expense or assets of all segments. In addition, the unallocated amount should be disclosed separately. Where allocation of an item involves a material judgement, the basis of allocation should be clearly stated.
5. In the event that segments are redefined in subsequent years, an AI should disclose the nature, reason for and effects of such change, where the change has a material effect on the segment information.
6. When a particular segment is regarded as material and disclosed for the first time, comparative figures for the previous year should also be provided even though the segment was not regarded as material in respect of the previous year. Conversely, when a segment falls below the material level in the year of reporting, the segmental information should still be disclosed if the prior year comparatives were material and disclosed in the previous year.



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Annex J : Geographical Concentrations of Income, Profit or Loss, Assets, Liabilities and Contingent Liabilities and Commitments

The following illustrates the disclosure an AI is required to make in respect of its geographical concentrations of income, profit or loss, assets, liabilities and contingent liabilities and commitments:

	Total operating income	Profit/loss before taxation	Total assets	Total liabilities	Contingent liabilities & commitments
As at [reporting date]					
1. Hong Kong	XX	XX	XX	XX	XX
2. Asia Pacific excluding Hong Kong	XX	XX	XX	XX	XX
<i>of which country A</i>	XX	XX	XX	XX	XX
3. North and Latin America	XX	XX	XX	XX	XX
<i>of which country B</i>	XX	XX	XX	XX	XX
4. Middle East and Africa	XX	XX	XX	XX	XX
<i>of which country C</i>	XX	XX	XX	XX	XX
5. Western and Eastern Europe	XX	XX	XX	XX	XX
<i>of which country D</i>	XX	XX	XX	XX	XX
As at [last reporting date]					
1. Hong Kong	XX	XX	XX	XX	XX
2. Asia Pacific excluding Hong Kong	XX	XX	XX	XX	XX
<i>of which country A</i>	XX	XX	XX	XX	XX
3. North and Latin America	XX	XX	XX	XX	XX
<i>of which country B</i>	XX	XX	XX	XX	XX
4. Middle East and Africa	XX	XX	XX	XX	XX
<i>of which country C</i>	XX	XX	XX	XX	XX
5. Western and Eastern Europe	XX	XX	XX	XX	XX
<i>of which country D</i>	XX	XX	XX	XX	XX

Individual countries or geographical segments should be shown if they constitute not less than 10% of any of the relevant disclosure items. An AI may use the composition of geographical segments set out above or a different composition of geographical segments defined by internal management classifications for internal reporting purposes.



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Annex K : Illustrative Disclosure required in respect of each separately disclosed class of exposures under the STC Approach

The following illustrates the disclosure an AI is required to make in respect of each separately disclosed class of exposures under the STC approach pursuant to section 57(d) to (f) of the Disclosure Rules.

Class of Exposures	Total Exposures (note a)	Average Exposures (note b)	Exposures after Recognized Credit Risk Mitigation		Risk-weighted Amounts		Total Risk-weighted Amounts
			Rated (note c)	Unrated (note d)	Rated (note c)	Unrated (note d)	
A. On-balance Sheet							
1. Sovereign							
2. Public Sector Entity							
3. Multilateral Development Bank							
4. Bank							
5. Securities Firm							
6. Corporate							
7. Collective Investment Scheme							
8. Cash Items							
9. Regulatory Retail							
10. Residential Mortgage Loans							
11. Other Exposures which are not Past Due Exposures							
12. Past Due Exposures							
B. Off-balance Sheet							
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts							
2. OTC derivative transactions							
3. Credit derivative contracts							
4. Other off-balance sheet exposures not elsewhere specified							
Exposures that are risk-weighted at 1,250%							

Note:-

- principal amount or credit equivalent amount or default risk exposure, as applicable, net of specific provisions
- where the period-end figures for disclosed outstanding exposures are not genuinely representative of the AI's risk positions (e.g. where the period-end figures happen to be exceptionally large or small or where significant fluctuations in the figures were observed during the period), the AI should supplement such disclosure with



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meaningful average figures for the period and disclose the way in which the average figures are arrived at (e.g. arithmetic mean of the month-end figures in the relevant period) in order to facilitate users' understanding of its risk profile. If the period-end total exposure figures are considered representative for the period, this additional column could be eliminated (with such fact being clearly referenced in the disclosure statement).

- (c) including exposures with ECAI issue specific rating and exposures which have an inferred rating (i.e. exposures which do not have an issue-specific rating but whose risk-weights are determined under the Capital Rules by reference to an ECAI issuer rating assigned to the obligor of the exposure or to an ECAI issue rating of any other exposures of the obligor).
- (d) exposures which do not have ECAI issue specific rating, nor inferred rating



Illustration for section 57(d) of the Rules



Illustration of section 57(f) of the Rules



Illustration for section 57(e) of the Rules



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Annex L : Mapping the Income Statement Information under section 93 of the Banking (Disclosure) Rules to the Banking Return

The following illustrates the mapping of income statement information as required to be disclosed under section 93 of the Disclosure Rules to the Return of “Current Year’s Profit and Loss Account – MA(BS)1C”:

Name of Return: Current Year’s Profit and Loss Account

Banking (Disclosure) Rules		Banking Return	
Section No.	Description	Item	Description
93(1)(a)	Interest income	I.1.1	Interest income
93(1)(b)	Interest expense	I.1.2	Interest expense
93(1)(c)	Other operating income		
(i)	- Gains less losses arising from trading in foreign currencies	I.2.1A	Gains less losses arising from trading in foreign currencies
		I.2.1B	Gains less losses arising from non-trading activities in foreign currencies
(ii)	- Gains less losses on securities held for trading purposes	I.3.1	Investments held for trading
(iii)	- Gains less losses from other trading activities	I.2.2	Gains less losses arising from trading in interest rate derivatives
		I.2.3	Gains less losses arising from trading in other derivatives
(iv)	- Net fees and commission income	I.4	Income from fees and commissions (item I.4) less fees and commission expenses
(v)	- Others	I.3.2	Dividend from subsidiary/associated companies and other equity investments



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Banking (Disclosure) Rules		Banking Return	
Section No.	Description	Item	Description
		I.3.3	Income from non-trading investments
		I.6	Other income
93(1)(d)	Operating expenses	I.8	Staff and rental expenses
		I.9	Other expenses (excluding any fees and commission expenses which has been netted off in “net fees and commission income” under section 93(1)(c)(iv) above)
		I.11	Net charge for other provisions
93(1)(e)	Impairment losses and provisions for impaired loans and receivables	I.10	Net charge/(credit) for debt provision
93(1)(f)	Gains less losses from the disposal of property, plant and equipment and investment properties	I.5	Profit/(loss) on sale of fixed assets
93(1)(g)	Profit before taxation	I.13	Profit/(loss) before tax
93(1)(h)	Tax expense or tax income	I.14	Net charge for tax provision
93(1)(i)	Profit after taxation	I.17	Profit/(loss) for the period

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