Guideline No. 4.2.2

Our Ref : CB/POL/6/3

27 February 1992

Letter to all authorised institutions

Dear Sir

Capitalsation of property revaluation reserves

Under the current definition of capital for the purpose of calculating an institution's capital adequacy ratio, fully paid share capital is included in Tier 1 core capital and 70 per cent of the value of property revaluation reserves is included in Tier 2 supplementary capital.

A bank has sought the office's view on a proposal to issue fully paid bonus shares by capitalising part of property revaluation reserves, in effect converting a Tier 2 capital item into Tier 1 capital.

We have advised the bank concerned that the issue of share capital from the capitalisation of property revaluation reserves will not count as Tier 1 capital. The capitalised portion of property revaluation reserves will continue to be included in Tier 2 capital.

We intend to amend Schedule 3 to the Ordinance in due course to reflect the above advice.

Our policy on this matter is consistent with that of the Basle Supervisors' Committee and the Bank of England.

Yours sincerely

Albert Cheok
Deputy Commissioner of Banking