17 Jan 1997

Return of Market Risk Exposures

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Further to our letter of 26 September 1996 which introduced the new quarterly Return of Market Risk Exposures (the return), I am writing to draw your attention to an amendment to the reporting of the general market risk of interest rate exposures under the return.

For the calculation of the general market risk capital charge of interest rate exposures, paragraph 21 of the completion instructions indicates that positions in currencies other than HKD, USD, JPY and DEM should be grouped together and reported in a single maturity ladder (i.e. a separate single page for long and short positions in All Other currencies). We have further considered the implications of this arrangement and noted that some institutions may have major trading positions in interest rate products in currencies other than the four specified currencies. The existing arrangement may therefore deprive the MA of the precise information on the risk exposures of individual institutions.

To rectify the situation we would therefore require, for the purpose of Part I.2 (and Part V 2(a) correspondingly), positions for all currencies to be reported separately i.e. a separate page for each currency. We believe this change will not create extra burden to reporting institutions because:

i. the new arrangement actually eliminates the effort to add up the positions in different currencies within the All Others category should they be in the same time band and of the same sign; and

ii. reporting in this part is restricted to the institutions trading book and hence is unlikely to involve too many different currencies.

This revised reporting requirement is now incorporated into the relevant pages of the return (p.3, 9 and 11), the completion instructions (p.5) and the example annex (p.4 and the GBP ladder), which are enclosed for your reference. Institutions should ensure that these revised instructions be followed in their reporting, the first one being due on 31 January 1997.

Please feel free to contact **Mr. Jackson Young (2878 1624)** or **Mr. Eric Ho (2878 1625)** of this office should you have any queries.

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