INTERIM FINANCIAL DISCLOSURE BY AUTHORIZED INSTITUTIONS INCORPORATED IN HONG KONG

Introduction

1. This paper sets out the minimum standards recommended by the Hong Kong Monetary Authority ("HKMA") for interim financial disclosure by authorized institutions incorporated in Hong Kong.

Background

2. In 1994, the HKMA introduced the "Best Practice Guide on Financial Disclosure by Authorized Institutions" (the "BPG") setting out the minimum standards which the HKMA recommended authorized institutions to adopt in respect of information to be disclosed in their annual accounts. In each of the following years, the HKMA expanded the disclosure requirements to take into account international best practices and the developments in other countries. In June 1998, the HKMA issued a circular on "Disclosure of Additional information in Interim Reports" to all listed authorized institutions and banking groups recommending the disclosure of additional information in their interim reports. In December 1998, the HKMA issued a disclosure package recommending overseas incorporated authorized institutions which meet certain size criteria[1] to disclose selected financial data of their local operations and certain information concerning the financial strength of the institution as a whole on a half-yearly basis. The frequency of disclosure by overseas incorporated authorized institutions is in line with the listed local institutions which are required to make interim disclosure under the listing rules of the Stock Exchange of Hong Kong ("SEHK").

3. Currently, only the non-listed locally incorporated authorized institutions in the banking sector are not required to make interim financial disclosure. In order to improve the transparency of the banking sector and to achieve a level playing field for all institutions operating in Hong Kong, the HKMA is proposing that all locally incorporated authorized institutions which are subject to the BPG should also disclose selected financial information concerning their operations for the first six months of each financial year. Details of the HKMA's proposals are set out below.

Key financial information to be disclosed

4. The proposed disclosure items are set out in **Appendix 1** – the Interim Financial Information Disclosure Statement ("Interim Disclosure Statement"). The items are drawn on the basis of the BPG, SEHK's existing listing rules and the

[1] Total assets ≥ HK$10 billion or customer deposits ≥ HK$2 billion.

HKMA's guideline issued in June 1998 on "Disclosure of Additional Information in Interim Reports".

5. The HKMA is aware that the SEHK and the Hong Kong Society of Accountants ("HKSA") are currently reviewing responses to their proposals[2] on interim financial reporting. The recommendations in this paper may therefore be subject to review after the two bodies have finalized their proposals.

Implementation issues

Applicability and Effective date

6. The recommendations are intended to apply to all licensed banks and the larger restricted licence banks ("RLBs") and deposit-taking companies ("DTCs") incorporated in Hong Kong which are subject to the BPG in respect of their annual accounts. This means that these institutions should make interim reports for the half-year ending on or after 30 June 1999 in accordance with **Appendix 1**.

7. Non-listed institutions that are subsidiary of a listed banking group should also comply with the recommendations.

8. For listed institutions, the recommendations in this paper are supplementary to and do not supplant any other disclosures required under the Listing Rules of the SEHK.

9. As this paper covers interim financial disclosure by all locally incorporated authorized institutions, the circular dated 12 June 1998 on "Disclosure of Additional Information in Interim Reports" to all listed authorized institutions and banking groups is hereby rescinded.

Release, display and availability of Interim Disclosure Statement

10. In order to reduce the cost burden on institutions, it is not mandatory for institutions to publish their Interim Disclosure Statements in newspapers. Instead, it is proposed that these statements should be issued in the form of a press notice containing the relevant Disclosure Statement in both English and Chinese to newspapers circulating in Hong Kong within three months from the end of the interim financial period. A copy of the statement should also be displayed in a conspicuous position in the principal place of business of the institution in Hong Kong and in each local branch if applicable. The statement should also be made readily available to members of the public on request.

[2] The SEHK's Market consultation paper on Financial Disclosure; and the HKSA's exposure draft on Interim Financial Reporting.

11. Institutions should lodge a copy of the press notice with the HKMA one week prior to release. The HKMA will keep such notices in its public registry maintained under section 20 of the Banking Ordinance.

Audit and certification of disclosures

12. Institutions will not be required to have their Interim Disclosure Statements audited. However they should include a statement that the disclosure complies with the HKMA's recommendations and is not false or misleading. In cases of partial compliance, the statement should specify the areas of, and reasons for, non-compliance.

Hong Kong Monetary Authority
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