BEST PRACTICE GUIDE ON FINANCIAL DISCLOSURE BY AUTHORIZED INSTITUTIONS 1999

Introduction

1. This paper invites comments on the Hong Kong Monetary Authority's ("HKMA") recommendations for the Best Practice Guide on Financial Disclosure by Authorized Institutions ("BPG") for the 1999 annual accounts of locally incorporated authorized institutions.

Background to the 1999 BPG

2. The BPG was first introduced in 1994 and updated annually to take account of disclosure practices and developments in Hong Kong and other major financial centres. For the 1999 financial disclosure package, the HKMA proposes to bring the relevant disclosure requirements in line with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the guideline on Interim Financial Disclosure by Locally Incorporated Authorized Institutions issued by the HKMA in 1999. In particular, the analysis of investments in securities has been revised in accordance with HKSSAP24. Additional disclosure of components of capital base (including deductions prescribed in the Third Schedule of the Banking Ordinance) is also incorporated to bring the BPG in line with the recommendations of the Basel Committee's paper "Enhancing Bank Transparency".

3. The disclosure requirements on the Year 2000 problem have been deleted.

Recommendations for BPG 1999

4. The recommendations include the disclosure of the following additional information by authorized institutions.

Analysis of investments in securities

a) Investments in securities should be distinguished between equities and debt securities. Investments should be analysed between those which are listed and those which are unlisted. This analysis should be provided separately for held-to-maturity securities, investment securities, other investments in securities, trading securities and non-trading securities where applicable. Market value of listed securities should also be disclosed.

Additional information on non-accrual loans

b) An authorized institution should disclose the amount of advances to customers and advances to banks and other financial institutions which are:

- overdue for more than three months and on which interest is still being accrued; and

- overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased.

Components of capital base

c) An authorized institution should disclose the components of its “total capital base after deductions” as reported under Part I of the Capital Adequacy Ratio Return (MA(BS)3).

Other recommendations

d) Other recommendations for the BPG 1999 include:

- Deletion of “Exceptional items” from the line items in the profit and loss. This is replaced by disclosure in the notes to account of items of income and expenses within profit or loss from ordinary activities which are of such size, nature or incidence that their disclosure is relevant to explain the performance of the institution for the period;

- Revision of the terms for the different categories of securities in accordance with HKSSAP 24. (Treasury bills and certificates of deposits remain as separate reporting items. Treasury bills are reported under cash and short-term funds and certificates of deposit are reported as a separate line item in the balance sheet); and

- Revision of the existing disclosure requirements for overdue, rescheduled and non-accrual loans in line with the interim financial disclosure package for locally incorporated authorized institutions.

5 The above recommendations are shown in bold italics in the draft BPG 1999 is enclosed.

Effective date

6. The above recommendations are intended to apply to all authorised institutions incorporated in Hong Kong which are subject to the BPG in respect of their annual accounts for the financial years ended on or after 31 December 1999.

Hong Kong Monetary Authority
September 1999