FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORIZED INSTITUTIONS

A guideline issued by the Monetary Authority under section 16(10) of the Banking Ordinance (Cap. 155)

I. Introduction

1.1 This Guideline is issued under section 16(10) of the Banking Ordinance ("the Ordinance") by the Monetary Authority ("MA"). It incorporates and supersedes the Guideline of the same title issued by the MA in December 1999. The Guideline sets out the minimum standards which the MA expects authorized institutions incorporated in Hong Kong ("institutions") to adopt in respect of information to be disclosed in their annual accounts for financial years ending on or after 31 December 2000. The HKMA expects all institutions, except the smaller restricted licence banks ("RLBs") and deposit-taking companies ("DTCs"), to comply with this Guideline (see paragraphs 2.2 and 2.4).

1.2 The standards in this Guideline are supplementary to and do not supplant any other disclosures required under relevant legislation, accounting standards, or which are necessary to show a true and fair view of the financial state or affairs of an institution. Hence, in addition to the disclosure standards in this Guideline, institutions will need to take account of the other existing disclosure requirements under the Companies Ordinance (Cap. 32), the Stock Exchange Listing Rules, and the Hong Kong Statements of Standard Accounting Practice ("HK SSAP") where relevant.

II. Implementation

Application

2.1 The detailed guidelines in Section III apply to all licensed banks and the larger RLBs and DTCs incorporated in Hong Kong in respect of their annual accounts for financial years ending on or after 31 December 2000.

2.2 Larger RLBs and DTCs are defined for the purposes of this Guideline as those which currently have total assets of HK$1 billion or more <u>or</u> total customer deposits of HK$300 million or more. To maintain consistency in reporting, RLBs and DTCs which adopted the disclosure recommendations in the predecessor to this Guideline in respect of their 1999 accounts should continue to report on that basis (including changes introduced under this Guideline) notwithstanding that they may fall below the exemption thresholds in subsequent financial years. In assessing whether the RLB or DTC meets the above size criteria, the HKMA will make reference to item 25 "Total assets less provisions" and item 6.4 "Total deposits from customers" of the Return of Assets and Liabilities (Form MA(BS)1). In order to avoid the effect of one-off fluctuations at the end of the financial year, the average of the relevant figures reported in the twelve months up to and including August of each financial year shall be adopted for this purpose.

2.3 The detailed guidelines in Section III set out the minimum standards for disclosure. Nothing in the Guideline should prevent institutions from disclosing information in addition to that required in this Guideline, and RLBs and DTCs below the exemption thresholds from adopting the Guideline in their accounts.

Compliance

2.4 The Seventh Schedule of the Ordinance includes adequate disclosure of financial information as one of the criteria for continuing authorization (i.e. criteria that apply to institutions not only at the time of authorization but thereafter) under the Ordinance. Paragraph 11 of that Schedule provides that in relation to an institution incorporated in Hong Kong, the MA must be satisfied that it presently discloses, and will continue to disclose, adequate information about the state of its affairs and its profit and loss account in its audited annual accounts and in other parts of its annual report. This Guideline sets out the MA's expectations with respect to financial disclosure by institutions to which this Guideline applies. It is important to note that failure to meet the authorization criteria in the Seventh Schedule would be a ground for revocation of authorization (although the MA would have the discretion to decide whether to revoke).

Materiality

2.5 Institutions are not required to disclose items which are not material. An item should be regarded as material to an institution if the omission or misstatement of that item could have changed or influenced the judgement or decision of a user relying on the relevant information.

Statement of Compliance

2.6 Authorized institutions to which the detailed guidelines in Section III apply should include a statement in their directors' report on the extent of compliance with this Guideline and the reason for any non-compliance. In cases of full compliance, a general statement that the annual accounts have fully complied with the standards set out in this Guideline should be made. In case of partial compliance, the statement in the directors' report should specify the areas of, and reasons for, non-compliance.

Issuance of Press Release Relating to Annual Accounts

2.7 Authorized institutions to which the detailed guidelines in Section III apply should issue a press release in both English and Chinese in Hong Kong to announce their annual results within four months from the end of each financial year. Institutions are encouraged to include as much as possible of the information set out in Section III of this Guideline in the press release. It is not sufficient to issue a press release or advertisement which informs members of the public that a full set of accounts is available at the principal place of business or the local branches of the institution without disclosing any information described in Section III of this Guideline. Institutions should lodge a copy of the press release with the HKMA prior to issuance. The HKMA will keep such press releases in its public registry maintained under section 20 of the Banking Ordinance.

III. Detailed guidelines on minimum disclosure

Profit and Loss Account

3.1 An institution should include the following information in the profit and loss account or the notes to the financial statements. Institutions should exercise judgement in deciding on the relative prominence given to each disclosure item, having regard to the overall clarity of the financial statements.

Interest income

Interest expense

Other operating income

- Gains less losses arising from dealing in foreign currencies
- Gains less losses on trading securities or other investments in securities
- Gains less losses from other dealing activities
- Net fees and commission income (see paragraph 3.2)
- Dividend income (analyse into listed and unlisted)
- Others

Operating expenses

- Staff costs
- Premises and equipment expense, excluding depreciation (analyse where material)
- Depreciation charge
- Other operating expenses

Charge for bad and doubtful debts

Gains less losses from disposal of tangible fixed assets

Gains less losses from disposal of investment securities or non-trading securities

Provisions on held-to-maturity securities and investment securities <u>or</u> provisions on held-to-maturity securities and non-trading securities

Taxation charge

- Hong Kong tax
- Overseas tax
- Deferred tax, if any

Extraordinary item (in accordance with HK SSAP 2)

As an appropriation:

- Transfers to or from reserves

3.2 In relation to the net fees and commission income, the gross figures should be disclosed where they are material and are necessary for the appreciation of the true extent of fee-based activities engaged in by the institution.

3.3 In relation to the taxation charge, the basis on which the Hong Kong profits tax is computed should be disclosed.

3.4 An institution should disclose any material amount set aside to provisions other than those for depreciation, renewals or diminution in value of assets or any material amount withdrawn from such provisions and not applied for the purposes thereof.

3.5 An institution should disclose the nature and amount of items of income and expense, 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, in the notes to the financial statements.

Balance Sheet

3.6 An institution should disclose the following information in the balance sheet or in the notes to the financial statements. Again, institutions should exercise judgement in deciding on the relative prominence given to each disclosure item, having regard to the overall clarity of the financial statements.

Assets

Cash and short-term funds

– Cash and balances with banks and other financial institutions
– Money at call and short notice
– Treasury bills (including Exchange Fund Bills)

Placements with banks and other financial institutions maturing between one and twelve months

Trade bills (provisions should be shown if material)

Certificates of deposit held

Trading securities or other investments in securities[1]

Advances and other accounts

– Advances to customers
– Advances to banks and other financial institutions
– Accrued interest and other accounts (analyse where material)

[1] For disclosure purposes, institutions may use different terms provided that the meaning of alternative terms is made clear and the accounting treatment adopted conform to the requirements set out in HK SSAP 24.

- Provisions for bad and doubtful debts (analyse between those against advances to customers, advances to banks and other financial institutions, accrued interest and other accounts if material)
  - General
  - Specific

Held-to-maturity securities and investment securities <u>or</u> held-to-maturity securities and non-trading securities[2]

Investments in associates

Tangible fixed assets (for each major class of assets including investment properties disclose the information as set out below)

- Cost or valuation
- Additions, revaluations and disposals made during the period
- Amount provided or written off for depreciation or diminution in value of these assets during the period
- Accumulated depreciation
- Net book value

Liabilities

Deposits and balances of banks and other financial institutions

Current, fixed, savings and other deposits of customers

Certificates of deposit issued

Issued debt securities

Deferred taxation, if any (disclose in accordance with HK SSAP 12)

Other accounts and provisions

Capital Resources

Loan capital (types, coupon rates and maturities should be disclosed)

Minority interests

Share capital

Reserves (analyse into the various material types of reserves including property and other revaluation reserves, where maintained)

3.7 An institution should disclose details of the movements in provisions for bad and

[2] For disclosure purposes, institutions may use different terms provided that the meaning of alternative terms is made clear and the accounting treatment adopted conform to the requirements set out in HKSSAP 24.

doubtful debts (including provisions against trade bills where material) during the period. The movements in provisions need not be analysed by categories of assets but should be analysed into those in respect of general and specific provisions. Details of such movements to be disclosed should include:

– Amounts charged to the profit and loss account in the period for losses on doubtful advances, etc.;
– Amount of advances, etc. written off in the period;
– Amounts recovered of advances, etc. written off in previous years;
– Interest suspended on doubtful advances, etc., if applicable;
– Suspended interest recovered during the period, if applicable; and
– Exchange adjustments, if any.

3.8 An institution should disclose the amount of advances to customers on which interest is being placed in suspense or on which interest accrual has ceased[3] (hereafter referred to as "non-performing loans[4]"), the amount of such suspended interest, the amount of specific provisions made in respect of such advances and the percentage of such advances to total advances to customers. Similar information on advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased should also be disclosed. Where the specific provisions were made after taking into account the value of collateral in respect of such advances, an institution may wish to indicate this in order to put the level of provisioning in perspective.

3.9 Investments in securities[5] should be distinguished between equities and debt securities and analysed between those which are listed and those which are unlisted. The 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.

3.10 The issuers of held-to-maturity securities, investment securities, other investments in securities, trading securities and non-trading securities should be separately analysed into:

– Central governments and central banks;
– Public sector entities;

[3] Guidance on recognition of interest is at Annex A.

[4] It is suggested that in the presentation of their accounts and press releases, institutions should adopt the same practice to avoid confusing differences in terminology. Non-performing loans should be distinguished from "overdue loans", "rescheduled loans" and "classified loans" (i.e. those which are substandard, doubtful or loss).

[5] The institution should, for the purpose of paragraphs 3.9 to 3.11, include treasury bills.

- Banks and other financial institutions;
- Corporate entities; and
- Others.

3.11 The maturity profile of the following assets and liabilities should be disclosed:

Assets

- Advances to customers
- Placements with banks and other financial institutions[6]
- Certificates of deposit held
- Debt securities included in:
  - Trading securities or other investments in securities
  - Investment securities or non-trading securities
  - Held-to-maturity securities

Liabilities

- Deposits and balances of banks and other financial institutions
- Current, fixed, savings and other deposits of customers
- Certificates of deposit issued
- Issued debt securities

and analysed into those that are repayable on demand, three months or less (except those repayable on demand), one year or less but over three months, five years or less but over one year, after five years and undated. The analysis into the relevant maturity groupings should be based on the remaining period to the contractual maturity date as at the balance sheet date. Further guidance on maturity classification is given at Annex B.

3.12 The gross amount (before accumulated depreciation) of tangible fixed assets included in the financial statements should be analysed between those included at cost and those included at valuation, if any. For those fixed assets that have been included at valuation, the years in which those assets were valued and the values should be disclosed and in the case of assets that have been valued during the financial period, the following should be disclosed:

- Names of the persons who valued them and particulars of their qualifications for doing so; and
- Bases of valuation used by such persons.

[6] These include advances to banks and other financial institutions.

3.13 An institution should disclose how much of the premises (including investment properties) which are contained in tangible fixed assets are ascribable to those held freehold and those held on a lease (categorised into long lease, medium-term lease and short lease). A distinction should also be made between those held on lease in Hong Kong and those held outside Hong Kong.

3.14 An institution should disclose details of the movements in reserves during the period, including the surplus or deficit on revaluation of properties.

3.15 An institution should not maintain any undisclosed inner reserves in its balance sheet.

Cash Flow Statement

3.16 An institution should disclose a cash flow statement in accordance with HK SSAP 15.

Off-Balance Sheet Exposures

3.17 An institution should disclose the contractual or notional amounts of each significant class of off-balance sheet financial instruments or contracts outstanding. These should include but are not limited to the following items:

Contingent liabilities and commitments

- Direct credit substitutes
- Transaction-related contingencies
- Trade-related contingencies
- Note issuance and revolving underwriting facilities
- Other commitments
  - With an original maturity of under one year or which are unconditionally cancellable
  - With an original maturity of one year and over
- Others (including forward asset purchases, amounts owing on partly paid shares and securities, forward forward deposits placed, asset sales or other transactions with recourse) - analyse where material

Derivatives

- Exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements)
- Interest rate contracts
- Others

3.18 In relation to derivatives, an institution should provide an analysis of the aggregate notional amounts of each significant class of instruments. These should include but are not limited to the following, where significant:

Exchange rate contracts

– Forwards and futures
– Swaps
– Options purchased
– Options written

Interest rate contracts

– Forwards and futures
– Swaps
– Options purchased
– Options written

Others - analyse where material

3.19 An institution should analyse the aggregate notional amounts of each significant class of derivatives instruments into those entered into for trading or hedging purposes.

3.20 The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposure. An institution should also provide risk exposure information on its off-balance sheet instruments. In particular, it should report:

– Aggregate credit risk weighted amounts of its contingent liabilities and commitments, exchange rate contracts, interest rate contracts and other derivatives, if any; and
– Aggregate replacement costs of its exchange rate contracts, interest rate contracts, and other derivatives, if any.

It should also indicate whether these amounts take into account the effects of bilateral netting arrangements.

Transactions with Group Companies

3.21 Where an institution has entered into transactions with group companies, it should disclose the nature of the relationship and analyse the balances due to or from the various categories of group companies as at the balance sheet date.

Assets Pledged as Security

3.22 An institution should disclose the aggregate amount of secured liabilities and the nature and carrying values of the assets pledged as security.

Principal Accounting Policies

3.23 The principal accounting policies adopted in determining the profit or loss for the period and in stating the financial position should be disclosed by way of notes to the accounts.

3.24 A description of the principal accounting policies adopted in respect of off-balance sheet transactions should be given in the notes to the financial statements. As a minimum, the notes should include an explanation of the accounting practices adopted for valuation and income recognition.

Supplementary Financial Information

3.25 An institution should disclose the following information, either as part of the accompanying information to its financial statements or as part of the financial statements themselves. In general, where consolidated financial statements are presented, the disclosures need only be presented on the basis of the consolidated financial statements. Disclosure of additional information on a solo basis is encouraged.

Qualitative information on management of risks

3.26 An institution should provide a description of the main types of risk arising out of its business, including, where appropriate, credit, liquidity, interest rate, foreign exchange and market risks arising out of its trading book. It should also provide a description of the policies, procedures and controls used for measuring, monitoring and controlling those risks and for managing the capital required to support them. This would include, for example, discussion of:

- Board and senior management oversight of risk management;
- Identification and measurement of the various forms of risk;
- Approval of the entering into transactions;
- Monitoring and control of risks (e.g. through independent risk control units);
- Use of limits for controlling risks;
- Operational controls; and
- Role of internal audit.

Market risk

3.27 Market risk arising from an institution's trading book should be regarded as immaterial if an institution meets all of the de minimis exemption criteria for reporting market risk as set out in the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the MA. The institution, however, should state the fact that it has relied on such criteria in considering the materiality of market risk arising from its trading book.

3.28 Where the market risk arising from the trading book is not material for the institution, a statement to that effect should be made in conjunction with the qualitative information disclosed in accordance with paragraph 3.26 above and no further qualitative or quantitative disclosure need be made.[7]

3.29 Where the market risk arising from the trading book is regarded as material for the institution, in addition to the qualitative information described in paragraph 3.26 above, the institution should also provide quantitative information about the amount and volatility of the risk. As a minimum, such information should include the average daily revenue and the standard deviation of such daily revenue, analysed into foreign exchange, interest rate, commodity and equity exposures where material.[8] An analysis of the frequency distribution of the total daily revenues (in the form of a histogram) should also be provided.

3.30 An institution should also disclose further quantitative information on a basis that is consistent with the way in which the institution manages its market risk exposures, analysed into foreign exchange, interest rate, commodity and equity exposures where material. An explanation of the main parameters and assumptions underlying the data provided should be given. The types of information that institutions could provide would include information on the value at risk, an analysis of actual changes in portfolio values, a comparison of risk against performance, or a stress analysis based on the hypothetical effect of severe changes in market prices, or a gap or duration analysis.

3.31 Both the qualitative and quantitative disclosures set out above should encompass market risk arising over the period in respect of both on- and off-balance sheet business included in the relevant market-risk related portfolios.

Segmental information

3.32 An institution should report concentrations of income, profit or loss, assets,

[7] The institutions should, however, for the purpose of paragraph 3.26 provide a description of interest rate risk and foreign exchange rate risk which it incurs outside its trading book and the policies, procedures and control used for managing those risks.

[8] Revenue in this context would comprise the daily change in value in marked-to-market trading portfolios plus any trading-related net interest income or other revenue.

liabilities and contingent liabilities and commitments arising from or booked in countries or geographical areas which are considered to be significant to the institution. A country or geographical area should generally be reported where it contributes 10% or more of the relevant disclosure item. The financial information to be disclosed should include but is not limited to:

– Total operating income (net of interest expense);
– Profit/loss before taxation;
– Total assets;
– Total liabilities; and
– Contingent liabilities and commitments

The above information should be based on the location of the principal operations of the subsidiary or, in the case of the institution itself, on the location of the branch responsible for reporting the results or booking the assets. The basis should be clearly stated. An illustrative example of how the geographical information should be disclosed is at Annex C.

3.33 An institution should report both qualitative and quantitative information for the various classes of business which are significant to the institution. On qualitative information, an institution should identify its own significant classes of business and give a brief description of the activities of each reported class of business. An institution may decide for itself how to classify its business, which may be based on the internal classification of the institution for management purposes. An institution should aim to provide a breakdown of activities rather than simply putting all activities into one broad category. In this connection, a class of business activities should be reported if it constitutes 10% or more of the total amount in any of the following categories of information. On quantitative information, an institution should provide a breakdown of one or more of the following:

– Total operating income (net of interest expense);
– Profit/loss before charge for bad and doubtful debts;
– Profit/loss after charge for bad and doubtful debts; and
– Profit/loss before taxation.

Such breakdown may be expressed in either absolute or percentage terms, by each class of business reported in the qualitative information. In the former case, the aggregate of such breakdown should reconcile with the figures provided in the audited profit and loss account.

3.34 An institution should disclose the breakdown of the gross amount of advances to customers by industry sectors which are considered to be significant to the institution. In order to achieve consistency of reporting among institutions, the information should be disclosed in accordance with the industry categories set out below. The types of advances that should be included in the respective categories should follow that contained in the return on "Quarterly Analysis of Loans and Advances and Provisions" (MA(BS)2A). Further guidance on how the various types of advances classified in that return relate to the industry categories set out below is given at Annex D.

Loans for use in Hong Kong

Industrial, commercial and financial

- Property development
- Property investment
- Financial concerns
- Stockbrokers
- Wholesale and retail trade
- Manufacturing
- Transport and transport equipment
- Others

Individuals

- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme
- Loans for the purchase of other residential properties
- Credit card advances
- Others

Trade finance

Loans for use outside Hong Kong

While all institutions should use these categories, they may also break items down into more detailed sub-categories if they so wish. Institutions may also find that disclosing information about the extent to which the above advances are backed by collateral or other security indicates better the extent of credit risk. Disclosure of any such additional information is encouraged. In addition, the aggregate of this analysis should reconcile with the relevant figures provided in the balance sheet.

3.35 Institutions should disclose the breakdown of the gross amount of advances to customers by countries or geographical areas that are considered to be significant[9] to the institution according to the location of the counterparties. The basis of the

[9] A country or geographical area should generally be reported where it constitutes 10% or more of the aggregate gross amount of advances to customers after taking into account any risk transfers.

country or geographical classification[10] should be clearly stated, including whether any account has been taken of transfer of risk. In general, risk transfer should only be made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. A similar geographical breakdown should also be given for overdue and non-performing loans. Institutions are encouraged to disclose other types of credit exposure, including those arising from off-balance sheet transactions, according to the location of the counterparty.

Currency risk

3.36 An institution should disclose foreign currency exposures arising from trading, non-trading and structural positions. The position in a particular foreign currency should be reported if its net position (regardless of sign) constitutes 10% or more of the total net position in all foreign currencies. The net options position reported should be calculated using either the "model user" or the "worst case" approach set out in the return "Foreign Currency Position" (MA(BS(6)) or using the institution's internal reporting method. The basis of calculation should be clearly stated. The financial information to be disclosed in respect of each such currency should include:

- Spot assets;
- Spot liabilities;
- Forward purchases;
- Forward sales;
- Net options position; and
- Net long (short) position.

Similarly the net structural position (assets less liabilities) in a particular foreign currency (regardless of sign) should be reported if it constitutes 10% or more of the total net structural position in all foreign currencies.

An illustrative example of how currency risk should be disclosed is at Annex E.

Overdue and rescheduled loans

3.37 An institution should disclose the following information with regard to overdue and rescheduled loans:

[10] For the purpose of determination of the geographical composition only, reference can be made to paragraph 3.32 and Annex C.

a) The gross amount of advances (to customers[11], banks and other financial institutions) which have been overdue for:

– Six months or less but over three months;

– One year or less but over six months; and

– Over one year.

Both the absolute amount of overdue advances and the percentage of such advances to total advances to customers should be given for each maturity bracket. Similar information on overdue advances to banks and other financial institutions should also be disclosed. The amount of gross advances above should be shown net of any interest that has been capitalised but accrued to a suspense account.

Institutions may wish to disclose the value of collateral held against the overdue loans and the amount of specific provisions made. Where an institution opts to disclose the value of collateral held, it should disclose the split of overdue advances into those which are secured and those which are unsecured and the market value of collateral held against the secured loans based on the most recent estimate.

b) The amount of advances to customers and advances to banks and other financial institutions which:

(i) are overdue for more than three months and on which interest is still being accrued; and

(ii) are overdue for three months or less or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased.

c) The amount of rescheduled advances to customers (net of those which have been overdue for over three months and reported in item (a) above) and the percentage of such advances to total advances to customers. Similar information on rescheduled advances to banks and other financial institutions should also be given.

d) The information disclosed on items 3.37(a) to 3.37(c) above should take the form of a reconciliation between overdue loans and non-performing loans. The reconciliation should comprise item 3.37(a) less item 3.37(b)(i) plus items 3.37(b)(ii) and 3.37(c).

The non-performing loans reconciled under (d) above should correspond with the relevant figures provided under paragraph 3.8 above.

[11] Total advances to customers should correspond to the total of loans for use in Hong Kong, trade finance and loans for use outside Hong Kong disclosed under the analysis of advances to customers by industry sectors in Annex D.

Guidance on the classification and definition of overdue and rescheduled loans is given at Annex F. An illustration showing how the value of collateral held against overdue loans should be disclosed is at Annex G.

<u>Other financial information</u>

3.38 An institution should disclose the following information supplementary to its financial statements:

a) The capital adequacy ratio at balance sheet date, computed in accordance with the Third Schedule of the Ordinance. Where an institution is required to compute a consolidated ratio by the HKMA, that ratio should be disclosed. Otherwise, the solo ratio should be disclosed;

b) For institutions which are required by the HKMA to maintain capital against market risk, an adjusted capital adequacy ratio which takes into account market risk as at the balance sheet date, computed in accordance with the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the MA;

c) The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return (MA(BS)3) should be disclosed. These should include but are not limited to the following items:

Core capital
- Paid up ordinary share capital
- Reserves (eligible for inclusion in core capital)
- Minority interests
- Others
- Deduct: Goodwill

Eligible supplementary capital
- Reserves on revaluation of land and interests in land (at 70%)
- General provisions for doubtful debts
- Irredeemable cumulative preference shares
- Term subordinated debt
- Term preference shares
- Others

Total capital base before deductions

Deductions from total capital base

Total capital base after deductions

The basis of computation should be clearly stated and should be consistently applied each year. Where both the adjusted and unadjusted capital adequacy ratios are disclosed, the fact that the adjusted ratio takes into account market risk should be clearly stated.

d) The average liquidity ratio for the financial period (i.e. 12 months in the normal instance) should be disclosed. The average ratio should be the simple average of each calendar month's average ratio, as reported in Part 1(2) of the "Return of Liquidity Position of an Authorized Institution" (MA(BS)1E) calculated for the purposes of the Ordinance. Where the basis of computation has been agreed with the HKMA, an institution may choose to include overseas branches and/or subsidiaries in the calculation of the liquidity ratio (rather than Hong Kong offices only).

Comparative Figures and Transitional Arrangements

3.39 The corresponding amounts for the immediately preceding financial year should be given for the above disclosures.

3.40 Where the disclosures are applied for the first time, and it is impractical to apply the disclosures retrospectively, the disclosure in respect of the comparatives need not apply for the first year.

Terminology

3.41 Institutions should consider the guidance note on terminology at Annex H in determining the classification of items within the disclosures contained in this Guideline. Institutions should provide sufficient descriptions in their accounting policy notes or other notes on the accounts to enable the users of the financial statements to understand how material items have been dealt with.

Presentation and Layout

3.42 The above standards present a broad framework of financial disclosure by institutions. The precise method of presentation in the accounts and the layout is a matter for individual institutions to agree with their auditors.