Review of Regulatory Reporting

Introduction

1. A Working Group on Regulatory Reporting was set up in December 2001 to conduct a comprehensive review of the regulatory returns submitted by authorized institutions (AIs). The membership of the Working Group included representatives from the Hong Kong Association of Banks, the Deposit-taking Companies Association and the Hong Kong Society of Accountants. The purpose of the review was to identify possible areas of improvement to reduce AIs' reporting burden and improve the accuracy, consistency and usefulness of reporting, and to review the content of the returns and their reporting frequency, taking into account latest policy developments and the reporting requirements of the Bank for International Settlements (BIS) and the International Monetary Fund (IMF).

2. The Working Group has now completed the review and has drawn up a set of proposals on amendments to the regulatory returns and completion instructions, frequency of reporting and deadlines for submission. This paper invites comments on the proposed amendments to the regulatory returns.

3. Highlighted below are the key changes proposed. Detailed amendments are shaded and in bold italics in the revised returns and completion instructions, which are attached together with a summary of proposed amendments for each of the returns.

Proposed Amendments

Reduction in Reporting Burden

4. The Working Group proposes the following amendments aimed at easing the reporting burden of AIs:

- To delete the *Weekly Statement of Certain Assets and Liabilities*;
- To reduce the reporting frequency of overseas branches of locally incorporated AIs in respect of the *Return of Assets and Liabilities* and *Return of Current Year's Profit and Loss Account*, to the extent that quarterly data on such branches can be supplemented by management information (AIs are welcome to commence discussion with their respective case officers on this matter);
- With the incorporation of sectoral information on loans to the telecommunications industry and exposures to non-bank Chinese entities into the *Return of Loans and Advances and Provisions*, to delete the two existing quarterly surveys covering these data;
- To combine the existing *Return of External Liabilities and Claims* and *Return of Cross-border Claims* into a single return named *Return of External Positions*. The reporting frequency of external liabilities and claims would be

reduced from monthly to quarterly and the submission deadline of 21 days extended to 1 month. However, selected data on positions vis-à-vis four major countries would continue to be collected monthly for the purpose of monitoring cross-border capital flows. This is proposed to be achieved via a memorandum note to the monthly *Return of Assets and Liabilities*. The reporting frequency of cross-border claims would be changed as a consequence from half yearly to quarterly, in line with the requirements of the BIS;

- In view of the increased burden that may arise from reporting cross-border claims by maturity breakdown, it is proposed to collect such data on the basis of Hong Kong office (HKO) positions only (except locally incorporated licensed banks, for which their consolidated positions will also be required).

5. With the reductions proposed above, the number of returns per year to be submitted by an AI with overseas branches will be reduced by as much as 40%. Annex A gives a comparison of the number of returns to be submitted by AIs before and after the proposed changes.

<u>Technical Amendments to Specific Returns</u>

6. The Working Group also proposes amendments with respect to policy developments and the reporting requirements of the BIS and IMF. The more significant technical changes proposed are set out below:

Return of External Positions

7. Technical changes to this return are mainly to close the reporting gaps vis-à-vis the BIS requirements, for which data for this return are being compiled, namely:
   - To require the reporting of external liabilities and claims positions in US$, the major foreign currency for financial transactions in Hong Kong;
   - To collect data on banks' loans and deposits and debt securities by country which are necessary for compiling the balance of payments statistics;
   - To break down data on cross-border claims by maturity as residual maturity is an important factor influencing the risk of a claim;
   - To collect data on undistributed credit commitments and back-up facilities to facilitate a more comprehensive measurement of overall credit exposures;
   - To remove over 50 countries from the existing country breakdown given the immaterial exposure of the banking sector to those countries. It is proposed to add only six new countries to which AIs have a meaningful size of exposure.

Return of Assets and Liabilities

8. A breakdown of selected asset and liability items by residency status is proposed. The delineation between "residents" and "non-residents" is a key feature of all macro-statistical systems. The different sensitivity of these two groups in

response to market information as reflected by the movement of AIs' balance sheet items is useful to both international organisations and governments for macro-economic analysis. Presently, licensed banks are providing such data to the Census and Statistics Department and it is therefore hoped that it will not be too onerous for AIs to report such data to the HKMA. To allow AIs more time to collate the data, a one-month reporting deadline is suggested for these data.

Return of Loans and Advances and Provisions

9. Some changes are proposed in respect of the economic sector breakdown:
   - To delete sunset industries to which the exposure of the banking sector is insignificant;
   - To add two new economic sectors, "Recreational activities" (capturing exposures to mass media) and "Information technology", defined with reference to the ISIC Code used by many AIs; and
   - To split up data on "Taxis" and "Public light buses" and insert a new category "Air transport" under "Transport and transport equipment".

10. Proposed guidance on the reporting treatment of a rescheduled asset taken up by a new obligor and the circumstances under which a rescheduled asset may be upgraded to "special mention" is now specified.

Return of Large Exposures

11. The structure of the existing return is proposed to be amended to better describe the nature of information collected and remove ambiguity in the reporting of aggregate exposures to groups of related parties containing bank and non-bank entities. Parts I, II and III of the return will now be clearly delineated into "connected parties", "non-bank entities" and "bank entities" respectively. Only exposures to non-bank connected parties are required to be reported in Part I.

12. Opportunity has also been taken to incorporate the reporting treatment for the use of credit derivatives in the return.

Return of Foreign Currency Position

13. To standardize the treatment of the reporting of foreign currency positions of AIs, it is proposed to require all AIs to report their positions (including options) using the Model User Approach, which is in fact the delta equivalent approach currently used in the *Return of Interest Rate Risk Exposures*. As a result, the Worst Case Approach will no longer be catered for.

14. It is proposed to introduce a row for the RMB positions of banks in Hong Kong.

Others

15. A number of other amendments are proposed to bring prudential reporting in line with accounting standards.

16. Despite the amendments proposed in this review exercise, there are still a number of shortfalls in meeting the full BIS reporting requirements. These will be considered in the future together with further enhancements currently being considered by the BIS.

17. The *Return of Interest Rate Risk Exposures* has not been included in the current review as the issuance of a module of the Supervisory Policy Manual on interest risk management is expected in the second half of the year which is likely to affect this return.

Timetable for implementation

18. Subject to comments received, it is the intention to have the amendments finalized and the revised returns formally issued by mid-December this year. Implementation is targeted for the end-June 2003 positions.

Queries

19. For general queries, please contact Ms Tess Leung at 2878-8279 or Ms Kennis Hui at 2878-8228. A list of the subject officers for the regulatory returns together with their contact numbers are attached at Annex B for any reporting queries.

Hong Kong Monetary Authority
July 2002

Annex A

Number of Regulatory Returns to be Submitted by AIs

	No. of returns to be submitted per year			
	Licensed bank		RLB and DTC	
	Current	Proposed	Current	Proposed
Locally incorporated AIs				
– With overseas branches and subsidiaries	186+8N	128+4N	134+8N	124+4N
– Without overseas branches and subsidiaries	150	88	98	88
Foreign AIs	142	80	90	80

N = Number of overseas countries with branches

Annex B

List of Subject Officers of the Regulatory Returns and Their Contact Numbers

Return Codes	**Regulatory Returns**	**Subject Officers / Contact Numbers**
MA(BS)1E	Liquidity Position	Andrew Wu
MA(BS)1G	Maturity Profile	2878-1381
MA(BS)3	Capital Adequacy Ratio	
MA(BS)1, 1A, 1B	Assets and Liabilities	Angus Chan
MA(BS)1C	Profit and Loss Account	2878-1287
MA(BS)1D	Large Exposures	
MA(BS)1F (a) and (b)	Certificate of Compliance	
MA(BS)2A	Loans and Advances and Provisions	
MA(BS)3A	Market Risk Exposures	Cho-hoi Hui
MA(BS)6	Foreign Currency Position	2878-1485
MA(BS)9	External Positions (formerly External Liabilities and Claims and Cross-Border Claims)	Denise Tai / Kelvin Fan 2878-1924 / 2878-1664