| HONG KONG MONETARY AUTHORITY 香港金融管理局 | | |
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| **Supervisory Policy Manual** | | |
| **FD-2** | **Interim Financial Disclosure by Locally Incorporated Authorized Institutions** | Consultation |

This module should be read in conjunction with the Introduction and with the Glossary, which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

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## Purpose

To set out the minimum disclosure standards which the MA expects AIs incorporated in Hong Kong to adopt in respect of information to be disclosed in their Interim Financial Information Disclosure Statements ("Disclosure Statements")

## Classification

A non-statutory guideline issued by the MA as a guidance note

## Previous guidelines superseded

Guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" dated 02.11.01

## Application

To all AIs incorporated in Hong Kong, except certain non-listed AIs[1]

## Structure

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# 1. Status and implementation

## 1.1 Status

1.1.1 This module supplements, and does not replace, any other disclosures required under relevant legislation or accounting standards. Hence in addition to the disclosure standards in this module AIs will need to take account of the other existing disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong and the Hong Kong Statements of Standard Accounting Practice ("HK SSAPs") where relevant.

## 1.2 Application

1.2.1 This module applies to all AIs incorporated in Hong Kong which are subject to FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions" in respect of their annual accounts, except non-listed AIs which are

wholly-owned subsidiaries of AIs incorporated in Hong Kong.

1.2.2 It sets out the minimum standards for disclosure. AIs are encouraged to disclose information in addition to that required herein, and RLBs and DTCs below the exemption thresholds and non-listed AIs which are wholly-owned subsidiaries of AIs incorporated in Hong Kong are encouraged to adopt the disclosure standards set out in this module.

### 1.3 Materiality

1.3.1 AIs are not required to disclose items which are not material. An item should be regarded as material to an AI 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.

### 1.4 Statement of compliance

1.4.1 AIs to which this module applies should include in their Disclosure Statements a declaration on the extent of compliance with the disclosure standards set out in this module and the reason for any non-compliance.

1.4.2 In cases of full compliance, a general statement that the Disclosure Statement complies fully with the disclosure standards set out in this module should be made.

1.4.3 In case of partial compliance, the statement should specify the areas of, and reasons for, non-compliance.

### 1.5 Issue of press release

1.5.1 AIs to which this module applies should issue a press release in both English and Chinese in Hong Kong containing their Disclosure Statements within three months from the end of each interim financial period.

1.5.2 It is not sufficient to issue a press release or advertisement which informs members of the public that the Disclosure Statement is available at the principal place of business or local branches of the AI.

1.5.3 AIs should lodge a copy of the press release with the HKMA prior to issue. The HKMA will keep such press releases in its public registry maintained under §20 of the Banking Ordinance.

1.5.4 A copy of the Disclosure Statement should be displayed in a conspicuous position in the principal place of business of the AI in Hong Kong and in each local branch if applicable. The Disclosure Statement should also be made readily available to members of the public on request.

## 2. Interim financial information disclosure

### 2.1 Profit and loss information

2.1.1 AIs should include the following profit and loss information in their Disclosure Statements:

- interest income;
- interest expense;
- other operating income;
  - ***net fees and commission income (separate disclosure of gross fees and commission income and expenses to be given);***
- operating expenses ***(analyse where material)***;
- 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;
- gains less losses from disposal of held-to-maturity securities;
- provisions on held-to-maturity securities and investment securities or provisions on held-to-maturity securities and non-trading securities;
- taxation charge:

- Hong Kong tax;
- overseas tax; and
- deferred tax, if any;

- extraordinary items (in accordance with HK SSAP 2); and
- as an appropriation:
  - transfers to or from reserve.

2.1.2 An AI should provide an explanatory statement relating to the activities of the AI and profit (or loss) during the interim financial period which should include any significant information enabling readers to make an informed assessment of the trend of the activities and profit (or loss) of the AI together with an indication of any special factor which has influenced those activities and the profit (or loss) during the interim financial period. The statement should enable a comparison to be made with the corresponding period of the preceding financial year.

2.1.3 An AI should also provide an explanatory note on the nature and amount 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 AI for the period.

### 2.2 Balance sheet information

2.2.1 AIs should disclose the following balance sheet information in their Disclosure Statements:

***Assets***

- cash and short-term funds;
- placements with banks and other financial institutions maturing between one and twelve months;
- trade bills;
- certificates of deposit held;

- trading securities or other investments in securities;
- advances and other accounts:
  - advances to customers;
  - advances to banks and other financial institutions;
  - accrued interest and other accounts (analyse where material);
  - 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; and
    - specific;
- held-to-maturity securities and investment securities or held-to-maturity securities and non-trading securities;
- investments in associates;
- tangible fixed assets; and
- total assets.

***Liabilities***

- deposits and balances of banks and other financial institutions;
- ~~***current, fixed, savings and other***~~ deposits ***of from*** customers:
  - ***demand deposits and current accounts;***
  - ***savings deposits; and***
  - ***time, call and notice deposits;***
- certificates of deposit issued;
- issued debt securities;

- deferred taxation, if any (disclose in accordance with HK SSAP 12);
- other accounts and provisions; and
- total liabilities.

***Capital resources***

- loan capital;
- minority interests;
- share capital; and
- reserves (analyse into the various material types of reserves including property and other revaluation reserves, where maintained).

2.2.2 AIs should also disclose:

- the amount of non-performing loans[2];
- the amount of suspended interest[3] in respect of such advances;
- the amount of specific provisions made in respect of such advances; and
- the percentage of such advances to total advances to customers.

2.2.3 Similar information as stated in para. 2.2.2 on advances to banks and other financial institutions which are non-performing should also be disclosed.

2.2.4 Where the specific provisions were made after taking into account the value of collateral in respect of non-performing advances, AIs may wish to indicate this in order to put the level of provisioning into perspective.

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[2] Non-performing loans (see Annex H of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions" for guidance on terminology) should be adequately defined in the Disclosure Statements and distinguished from "overdue loans", "rescheduled loans" and "classified loans" (i.e. those which are substandard, doubtful or loss).

[3] Refer to CR-G-6 "Interest Recognition" for guidance.

2.2.5 AIs should additionally disclose the gross amount of advances[4] (to customers, 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[5] should be given for each maturity bracket. Similar information on overdue advances to banks and financial institutions should also be disclosed.

2.2.6 AIs may wish to disclose the value of collateral held against the overdue loans and the amount of specific provisions made. Where AIs opt to disclose the value of collateral held, they 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.

2.2.7 AIs should also disclose 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.

2.2.8 AIs should disclose the amount of rescheduled advances to customers, net of those which have been overdue for over three months and reported in para. 2.2.5 above, and the percentage of such advances to total advances to customers. Similar information on rescheduled

[4] The amount of gross advances should be shown net of any interest that has been capitalised but accrued to a suspense account.

[5] 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 sector in para. 2.4.1.

advances to banks and other financial institutions should also be given.

2.2.9 The information disclosed above should take the form of a reconciliation between overdue loans and non-performing loans. The reconciliation should comprise the amount in para. 2.2.5 less that in para. 2.2.7(i) plus the amounts in paras. 2.2.7(ii) and 2.2.8.

2.2.10 The non-performing loans reconciled under para. 2.2.9 above should correspond with the relevant figures provided under para. 2.2.2 above.

2.2.11 Guidance on the classification and definition of overdue and rescheduled loans is given in Annex F of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions". An illustration showing how the value of collateral held against overdue loans should be disclosed is in Annex G of the same module.

2.2.12 AIs should disclose the amount of other assets, analysed by major categories of assets such as trade bills and debt securities, 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.

***2.2.13 AIs should disclose the amount of repossessed assets held, irrespective of the accounting treatment of the related loans and advances, upon the repossession of the assets and include a statement on how the repossessed assets and the related loans and advances are reported in the financial statements.***

## 2.3 Off-balance sheet exposures

2.3.1 AIs should disclose the contractual or notional amounts of each significant class of off-balance sheet financial instruments or contracts outstanding. These should include the following items:

***Contingent liabilities and commitments***

- direct credit substitutes;

- transaction-related contingencies;
- trade-related contingencies;
- note issue and revolving underwriting facilities;
- other commitments; and
- 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; and
- others.

2.3.2 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. AIs should also provide risk exposure information on their off-balance sheet instruments. In particular, they should report:

- aggregate credit risk weighted amounts of their contingent liabilities and commitments, exchange rate contracts, interest rate contracts and other derivatives, if any; and
- aggregate replacement costs of their exchange rate contracts, interest rate contracts and other derivatives, if any.

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

## 2.4 Segmental information

2.4.1 AIs should disclose the breakdown of the gross amount of advances to customers by industry sectors which are

considered to be significant to them. In order to achieve consistency of reporting among AIs, 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 those contained in the return "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 in Annex C of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions".

***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; and
  - 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; and
  - others;

***Trade finance***

***Loans for use outside Hong Kong***

2.4.2 While all AIs should break down the gross amount of advances to customers using the categories in para. 2.4.1, they may also break items down into more detailed subcategories if they so wish. AIs may also find that disclosing information about the extent to which these 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 as balance sheet information.

2.4.3 AIs should disclose the breakdown of the gross amount of advances to customers by countries or geographical areas that are considered to be significant[6] to them according to the location of the counterparties. A breakdown of overdue and non-performing loans by these identified countries or geographical areas should also be given.

2.4.4 AIs should also disclose the breakdown of their cross-border claims by countries or geographical areas that are significant[6] according to the location of the counterparties and by the types of counterparties (analysed into banks and other financial institutions, public sector entities and others). Reference should be made to the return "Cross-border Claims – MA(BS)9". Cross-border claims should include the following types of financial claims:

- loans and advances and other accounts (including money at call and short notice, balances and placements with banks and other financial institutions);
- holdings of treasury bills, trade bills and certificates of deposit; and
- investment in securities.

[6] A country or geographical area should generally be reported where it constitutes 10% or more of the relevant disclosure item, e.g. aggregate amount of advances to customers or cross-border claims, after taking into account any risk transfers.

Claims arising between branches and subsidiaries of the AI should be excluded. An illustration of how cross-border claims should be disclosed is at Annex D of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions".

2.4.5 In relation to para. 2.4.3 and para. 2.4.4, the basis of the country or geographical classification should be clearly stated, including the fact that transfer of risk has been taken account of. 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.

2.4.6 AIs are encouraged to disclose other types of credit exposure, including those arising from off-balance sheet transactions, according to the location of the counterparty.

### 2.5 Currency risk

2.5.1 AIs should disclose foreign currency exposures arising from trading, non-trading and structural positions. The position in a particular foreign currency should be reported if the net position (in absolute terms) 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 AI'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.

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

2.5.3 An illustration of how currency risk should be disclosed is in Annex E of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions".

## 2.6 Other financial information

2.6.1 AIs should disclose the capital adequacy ratio at the end of the interim financial period, computed in accordance with the Third Schedule of the Banking Ordinance. Where an AI is required to compute a consolidated ratio by the HKMA, that ratio should be disclosed. Otherwise, the solo ratio should be disclosed.

2.6.2 For AIs 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 end of the interim financial period, computed in accordance with CA-G-2 “Maintenance of Adequate Capital Against Market Risks”, should also be disclosed.

2.6.3 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 the following items:

- core capital:
  - paid up ordinary share capital;
  - share premium account;
  - reserves (eligible for inclusion in core capital);
  - minority interests;
  - others; and
  - 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; and
- others;

- total capital base before deductions;
- deductions from total capital base; and
- total capital base after deductions.

2.6.4 The basis of computation should be clearly stated and should be consistently applied each period. 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.

2.6.5 The average liquidity ratio for the interim financial period 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 Banking Ordinance. Where the basis of computation has been agreed with the HKMA, AIs may choose to include overseas branches and/or subsidiaries in the calculation of the liquidity ratio, rather than Hong Kong offices only.

2.6.6 AIs should also disclose any additional information which in their opinions is necessary for a reasonable appreciation of the results for the interim financial period.

## 3. Other issues

### 3.1 Comparative figures and transitional arrangements

3.1.1 Except the profit and loss information and liquidity ratio under subsections 2.1 and 2.6 respectively, the corresponding amounts for the immediately preceding financial year-end should be given for the disclosures in section 2.

3.1.2 For the profit and loss information and liquidity ratio under subsections 2.1 and 2.6 respectively, the amounts for the corresponding period of the preceding financial year should be given.

3.1.3 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.

### 3.2 Terminology

3.2.1 AIs should consider the guidance on terminology given in Annex H of FD-1 "Financial Disclosure by Locally Incorporated Authorized Institutions" in determining the classification of items within the disclosure standards contained in this module.

### 3.3 Presentation and layout

3.3.1 The disclosure standards set out in section 2 present a broad framework for the disclosure of interim financial information by AIs. The precise method of presentation in the Disclosure Statements and the layout is a matter for individual AIs to determine.

### 3.4 Basis of preparation

3.4.1 The disclosures in the Disclosure Statement should be prepared on a consolidated basis.

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