



Supervisory Policy Manual

FD-3

Financial Disclosure by Overseas Incorporated Authorized Institutions

v.2 – 08.11.02

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.

Purpose

To set out the minimum disclosure standards which the MA expects overseas incorporated AIs to adopt in respect of information to be disclosed on a half-yearly basis in their Key Financial Information Disclosure Statements ("Disclosure Statements")

Classification

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

Previous guidelines superseded

Guideline on "Financial Disclosure by Overseas Incorporated Authorized Institutions" dated 02.11.01

Application

To all overseas incorporated AIs, except the smaller AIs¹

Structure

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 - 1.3 Statement of compliance
 - 1.4 Issue of press release
2. Branch information disclosure

¹ See subsection 1.1 below for details.



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Annex A: Mapping the profit and loss information in the Key Financial Information Disclosure Statement to the banking return

1. Status and implementation

1.1 Application

- 1.1.1 This module applies to all larger AIs incorporated outside Hong Kong.
- 1.1.2 Larger AIs are defined for the purposes of these requirements as those which currently have:
 - total assets of HKD10 billion or more; or
 - total customer deposits of HKD2 billion or more.



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1.1.3 In assessing whether an AI meets the above size criteria, reference should be made to item 25 “Total assets less provisions” and item 6.4 “Total deposits from customers” of the “Return of Assets and Liabilities - 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 should be adopted for this purpose.

1.1.4 This module sets out the minimum standards for disclosure. AIs are encouraged to disclose information in addition to that required herein, and AIs below the exemption thresholds are encouraged to adopt the disclosure standards set out in this module.

1.2 Materiality

1.2.1 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.

1.3 Statement of compliance

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

1.3.2 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.

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

1.4 Issue of press release

1.4.1 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 financial period.



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- 1.4.2 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.
- 1.4.3 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.
- 1.4.4 A copy of the Disclosure Statement should also 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. Branch information disclosure

2.1 General

- 2.1.1 Section 2 applies to disclosures concerning the operations of the local branch (i.e. Hong Kong offices) of the AI.

2.2 Profit and loss information

- 2.2.1 AIs should include the following profit and loss information in their Disclosure Statements:
- interest income;
 - interest expense;
 - other operating income:
 - gains less losses arising from dealing in foreign currencies;
 - gains less losses on securities held for dealing purposes;
 - gains less losses from other dealing activities;
 - **net fees and commission income (separate disclosure of gross fees and**



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commission income and expenses to be given); and

- others;
- operating expenses **(analyse where material)**;
- charge for bad and doubtful debts;
- gains less losses from disposal of tangible fixed assets;
- profit before taxation;
- taxation charge; and
- profit after taxation.

2.2.2 A mapping of the profit and loss information to the “Return of Current Year’s Profit and Loss Account – MA(BS)1C” is given in Annex A.

2.2.3 Where an AI considers that the profit and loss information relating to the Hong Kong branch(es) does not give a full picture of the underlying performance of its business in Hong Kong, it is encouraged to provide an explanation that will put the performance into proper perspective.

2.3 Balance sheet information

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

Assets

- cash and short-term funds (except those included in amount due from overseas offices);
- placements with banks and other financial institutions maturing between one and twelve months (except those included in amount due from overseas offices);
- amount due from overseas offices of the AI;
- trade bills;
- certificates of deposit held;



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- securities held for dealing purposes;
- 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;
- investment securities;
- other investments;
- tangible fixed assets; and
- total assets.

Liabilities

- deposits and balances of banks and other financial institutions (except those included in amount due to overseas offices);
- deposits **from** customers:
 - **demand deposits and current accounts;**
 - **savings deposits; and**
 - **time, call and notice deposits;**
- amount due to overseas offices of the AI;
- certificates of deposit issued;
- issued debt securities;
- other accounts and provisions; and
- total liabilities.



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- 2.3.2 There may be instances where provisions for loans and advances or other exposures have been set aside and are maintained at overseas head offices. In such cases Als should disclose the provisioning policy of their head offices and the amount of any specific provisions allocated for exposures maintained in the Hong Kong offices.
- 2.3.3 Als should also disclose:
- the amount of non-performing loans²;
 - the amount of suspended interest³ 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.
- 2.3.4 Similar information as stated in para. 2.3.3 on advances to banks and other financial institutions which are non-performing should also be disclosed.
- 2.3.5 Where the specific provisions were made after taking into account the value of collateral in respect of such advances, Als may wish to indicate this in order to put the level of provisioning into perspective.
- 2.3.6 Als should additionally disclose the gross amount of advances⁴ (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.

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.

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



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Both the absolute amount of overdue advances and the percentage of such advances to total advances to customers⁵ should be given for each maturity bracket. Similar information on overdue advances to banks and financial institutions should also be disclosed.

- 2.3.7 Als may wish to disclose the value of collateral held against the overdue loans and the amount of specific provisions made. Where Als 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.
- 2.3.8 Als 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.
- 2.3.9 Als should disclose the amount of rescheduled advances to customers, net of those which have been overdue for over three months and reported in para. 2.3.6 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.
- 2.3.10 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. 2.3.6 less that in para. 2.3.8(i) plus the amounts in paras. 2.3.8(ii) and 2.3.9.
- 2.3.11 The non-performing loans reconciled under para. 2.3.10 above should correspond with the relevant figures provided under para. 2.3.3 above.

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. 2.5.1.



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2.3.12 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.

2.3.13 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.

2.3.14 AIs should disclose the amount of repossessed assets held and the accounting treatment of the related loans and advances, upon the repossession of the assets.

2.4 Off-balance sheet exposures

2.4.1 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 deposits placed, asset sales or other transactions with recourse) - analyse where material.

Derivatives



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- exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposit arrangements);
- interest rate contracts; and
- others.

2.4.2 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 the aggregate replacement costs of their exchange rate contracts, interest rate contracts and other derivatives, if any. They should also indicate whether these amounts take into account the effects of bilateral netting arrangements.

2.5 Segmental information

2.5.1 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;



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- 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

2.5.2 While all AIs should break down the gross amount of advances to customers using the categories in para. 2.5.1, 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.

2.5.3 AIs should disclose the breakdown of the gross amount of advances to customers by countries or geographical areas that are considered to be significant⁶ to them according to the location of the counterparties. A

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.



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breakdown of overdue and non-performing loans by these identified countries or geographical areas should also be given.

2.5.4 AIs should also disclose the breakdown of their cross-border claims by countries or geographical areas that are significant⁷ 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.

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”.

2.5.5 In relation to para. 2.5.3 and para. 2.5.4, 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.

2.5.6 AIs are encouraged to disclose other types of credit exposure, including those arising from off-balance sheet

⁷ 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.



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transactions, according to the location of the counterparty.

2.6 Currency risk

2.6.1 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.

2.6.2 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.

2.6.3 An illustration of how currency risk should be disclosed is in Annex E of [FD-1](#) “Financial Disclosure by Locally Incorporated Authorized Institutions”.

2.7 Liquidity

2.7.1 The average liquidity ratio for the financial period (i.e. 12 months for the year-end Disclosure Statement or 6 months for the half-year Disclosure Statement) 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



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of an Authorized Institution - MA(BS)1E” calculated for the purposes of the Banking Ordinance.

3. Information relating to AI as a whole

3.1 General

- 3.1.1 Section 3 applies to disclosures concerning AIs as a whole on a consolidated basis.
- 3.1.2 Disclosures should be based on the most recent consolidated accounts of an AI as at the publication date of the Disclosure Statement, i.e. either the most recent annual accounts or interim accounts, whichever is available. Where the AI is owned by a holding company and does not itself publish consolidated accounts, the corresponding consolidated information for the group of which it is a part should be disclosed.
- 3.1.3 AIs which do not publish interim accounts or publish only unconsolidated information in their interim accounts should disclose the consolidated information in the most recent annual accounts.
- 3.1.4 AIs may also wish to include a statement to refer readers to the full annual accounts or interim accounts published by them (or the group of which they are a part) for further details.

3.2 Capital and capital adequacy

- 3.2.1 AIs should disclose their consolidated capital adequacy ratio, computed in accordance with the Basel Capital Accord or the European Community's Capital Adequacy Directive (“CAD”), whichever is applicable, as at the end of the date of the most recent annual accounts or interim accounts, whichever is available. AIs which do not observe the Basel Capital Accord or the CAD should disclose this fact.
- 3.2.2 The basis of computation (including whether or not they incorporate an allowance for market risk) should be clearly stated.



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3.2.3 Als should disclose the aggregate amount of shareholders' funds (i.e. capital and reserves).

3.3 Other financial information

3.3.1 Als should disclose the following consolidated financial information as at the date of their most recent annual or interim accounts:

- total assets;
- total liabilities;
- total advances;
- total customer deposits (or total deposits)⁸; and
- pre-tax profit.

4. Other issues

4.1 Comparative figures and transitional arrangements

4.1.1 For disclosures under section 2, except the profit and loss information and liquidity ratio under subsections 2.2 and 2.7 respectively, the corresponding amounts for the immediately preceding financial period should be given (i.e. for the year-end Disclosure Statement, the interim figures should be disclosed as comparative figures and, for the interim Disclosure Statement, the preceding year-end figures).

4.1.2 For the profit and loss information and liquidity ratio under subsections 2.2 and 2.7 respectively, the amounts for the corresponding period of the preceding financial year should be given (i.e. for the year-end Disclosure Statement, the figures for the preceding financial year should be disclosed as comparative figures and, for the interim Disclosure Statement, the figures for the interim financial period of the preceding financial year).

⁸ Where total customer deposits are not separately disclosed in the annual accounts or interim accounts, the amount of total deposits (including those from banks and other financial institutions) of the Als may be disclosed instead. The basis of reporting should be clearly stated.



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- 4.1.3 For disclosures under section 3, except the pre-tax profit under subsection 3.3, the corresponding amounts for the immediately preceding financial period should be given (i.e. for the year-end Disclosure Statement, the interim figures should be disclosed as comparative figures and, for the interim Disclosure Statement, the preceding year-end figures).
- 4.1.4 For the pre-tax profit under subsection 3.3, the amounts for the corresponding period of the preceding financial year should be disclosed (i.e. for the year-end Disclosure Statement, the figures for the preceding financial year should be disclosed as comparative figures and, for the interim Disclosure Statement, the figures for the interim financial period of the preceding financial year).
- 4.1.5 Where interim consolidated information is not provided by an AI as a whole, annual figures should be provided as comparatives.
- 4.1.6 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 reporting period.

4.2 Terminology

- 4.2.1 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.

4.3 Presentation and layout

- 4.3.1 The disclosure standards set out in sections 2 to 3 present a broad framework for financial disclosure by overseas incorporated AIs. The precise method of presentation in the Disclosure Statements and the layout is a matter for individual AIs to determine.



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Annex A: Mapping the profit and loss information in the Key Financial Information Disclosure Statement to the banking return

Number

Name of return

MA(BS)1C

Return of Current Year's Profit and Loss Account

Disclosure statement		Banking return	
Item	Description	Item	Description
(i)	Interest income	I.1.1	Interest income
(ii)	Interest expense	I.1.2	Interest expense
(iii)	Other operating income		
	- Gains less losses arising from dealing in foreign currencies	I.2.1A I.2.1B	Gains less losses arising from trading in foreign currencies Gains less losses arising from non-trading activities in foreign currencies
	- Gains less losses on securities held for dealing purposes	I.3.1	Investments held for trading
	- Gains less losses from other dealing activities	I.2.2 I.2.3	Gains less losses arising from trading in interest rate derivatives Gains less losses arising from trading in other derivatives
	- Net fees and commission income	I.4	Income from fees and commissions (item I.4) less fees and commission expenses
	- Others	I.3.2 I.3.3 I.6	Dividend from subsidiary/associated companies and other investments Other investments Other income
(iv)	Operating expenses	I.8 I.9 I.11	Staff and rental expenses Other expenses less fees and commission expenses Net charge for other provisions
(v)	Charge for bad and doubtful debts	I.10	Net charge/(credit) for debt provision
(vi)	Gains less losses from disposal of tangible fixed assets	I.5	Profit/(loss) on sale of fixed assets
(vii)	Profit before taxation	I.13	Operating profit/(loss) before tax and exceptional items
(viii)	Taxation charge	I.15	Net charge for tax provision
(ix)	Profit after taxation	I.18	Profit/(loss) for the period



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