



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

11 Jul 2005

New Hong Kong Accounting Standards : Impact on Interim Financial Disclosure

Our Ref: G10/1/7C

11 July 2005

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

New Hong Kong Accounting Standards : Impact on Interim Financial Disclosure

On [12 April 2005](#), the HKMA circulated a Guidance Note on the regulatory reporting implications of the implementation of the new Hong Kong Accounting Standards (HKAS) by locally incorporated AIs. The Guidance Note also applied to regulatory reporting by overseas incorporated AIs whose head offices have chosen to adopt comparable accounting standards from 2005.

Since then, the HKMA has received several requests for clarification concerning the implications of the Guidance Note for interim financial disclosure by locally incorporated AIs in accordance with module FD-2 of the Supervisory Policy Manual (SPM) and by overseas incorporated AIs in accordance with module FD-3. The HKMA has therefore prepared further guidance on this matter. All proposed clarifications have been the subject of consultation with the Working Party on Financial Disclosure, consisting of members from the banking industry and the accounting profession. Following consultation, we have summarised the disclosure items which require clarification in the attached table ([Annex A](#)), with key changes being shaded for easy reference. Most of the disclosure items in fact closely mirror the issues that have been already covered in the previous Guidance Note.

As with the earlier Guidance Note, this additional guidance aims to assist AIs with their preparation of the interim disclosures in accordance with the requirements of the SPM for the reporting period ending on 30 June 2005 and only applies to locally incorporated AIs and those overseas incorporated AIs whose head offices have adopted accounting standards that are comparable to HKAS.

Depending on AIs' experience in following this guidance, we intend that they should follow the same approach for their year-end financial disclosures. However, it should be noted that this guidance is intended to be an interim solution pending the HKMA's more comprehensive review of disclosure in the context of the implementation of the recommendations on

disclosure contained in Pillar 3 of the Basel II paper. In this context, we anticipate some aspects of the disclosure regime under Pillar 3 will require enhancements of the HKMA's existing disclosure approach. In particular, disclosures relating to various risk aspects covering credit risk, market risk, interest rate risk and operational risk will have to be considered. Taking resource and system implications into account, the HKMA does not consider it appropriate to recommend any radical changes to the present disclosure regime before completion of the disclosure review.

Amendment to the Fair Value Option

I would also like to take this opportunity to draw your attention to the fact that the International Accounting Standards Board (IASB) has recently issued Amendments to IAS 39 Financial Instruments: Recognition and Measurement - The Fair Value Option. The amendments are to be applied for accounting periods beginning on or after 1 January 2006. Detailed information is available on the IASB website¹.

The latest amendments, though relating to proposals that were contained in an Exposure Draft (ED) previously published in April 2004, are substantially different from the previous ED. We understand that the Hong Kong Institute of Certified Public Accountants (HKICPA) plans to put this Amendment to their Financial Reporting Standards Committee at its next meeting in July/August for consideration for adoption in Hong Kong for accounting periods beginning on or after 1 January 2006.

Notwithstanding these changes, the HKMA's position on the use of the fair value option remains that contained in the 12th April Guidance Note. Except where explicitly permitted in the Guidance Note, the designation of assets under the fair value option should be the subject of consultation with the HKMA.

Should you have any questions, please feel free to contact Ms Theresa Kwan at 2878-1093.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

¹<http://www.iasb.org>

Encl. [Annex A](#) (MS Word, 70KB)

c.c. The Hong Kong Association of Banks
 The Deposit-taking Companies Associations
 The Hong Kong Institute of Certified Public Accountants

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