HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

20 May 2008

Leading-Practice Disclosures for Selected Exposures

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The Chief Executive
All Locally Incorporated Authorized Institutions

Dear Sir / Madam,

Leading-Practice Disclosures for Selected Exposures

At the request of the Financial Stability Forum (FSF), the Senior Supervisors Group (SSG)[1] undertook a review of disclosure practices regarding exposures to certain instruments that the marketplace now considers to be high-risk or to involve more risk than previously thought, and as a result of the review observed some leading disclosure practices among twenty large, internationally oriented firms. Such instruments include collateralised debt obligations, residential mortgage-backed securities, commercial mortgage-backed securities, other special purpose entities, and leveraged finance. A copy of the SSG Report to the FSF is attached.

The FSF believes that enhanced disclosure by financial firms of more meaningful and consistent quantitative and qualitative information about risk exposures, valuations, off-balance sheet entities and related policies would be very useful in restoring market confidence. Therefore, the FSF in its Report on Enhancing the Resilience of Markets and Financial Institutions strongly encourages financial institutions, at the time of their upcoming mid-year 2008 reports, to make robust risk disclosures that follow the leading disclosure practices summarised in the SSG Report.

The HKMA supports the above recommendation of the FSF. We encourage authorised institutions which have exposures to the activities covered in the SSG Report and are subject to the disclosure requirements under the Banking (Disclosure) Rules (BDR) to adopt the leading disclosure practices set out in the Report, at the time of their interim financial disclosures of 2008.

The Basel Committee on Banking Supervision (BCBS) is expected to issue further guidance to strengthen disclosure requirements under Pillar 3 of the Basel II framework by 2009. The HKMA will monitor closely the BCBS's initiative in this area and consider further refinements to the BDR as and when necessary.

Yours faithfully,

Y. K. Choi
Deputy Chief Executive

[1] The Senior Supervisors Group consists of senior financial supervisors from France, Germany, Switzerland, the United Kingdom and United States.

Encl. SSG Report - Leading-Practice Disclosures (PDF file, 805KB)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association

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