

Consultation Paper

Basel III Implementation

Standard Templates for Disclosures in Relation to Regulatory Capital (D2) **(Definition of Capital)**

1. Introduction

- 1.1 The Banking (Disclosure) (Amendment) Rules 2013 (“BDAR 2013”), which will come into effect from 30 June 2013, amend the Banking (Disclosure) Rules (“BDR”) (Cap 155M) to implement the disclosure requirements set out in the text of the Basel standard on the *Composition of capital disclosure requirements* (“Basel disclosure standard”) released by the Basel Committee on Banking Supervision in June 2012.
- 1.2 To give effect to the Basel disclosure standard, which is designed to enhance the consistency and comparability of disclosures made by banks across jurisdictions, section 6(1)(ab)¹ of the BDR¹ empowers the Monetary Authority (“MA”) to specify the format, and the standard disclosure templates, to be used by an authorized institution (“AI”) in presenting the information required to be disclosed under the BDR.
- 1.3 Section 24(2) and section 45(2) of the BDR provide that, for the purposes of making interim and annual financial disclosures, an AI must make the disclosures required by subsections (1)(a), (b), (c), (e) and (f) of section 24 and section 45 respectively by using the standard disclosure templates specified by the MA.

2. Purpose

- 2.1 The purpose of this paper is to consult the industry on the proposed format of the standard disclosure templates which the HKMA proposes to adopt for the purposes of the BDR. The standard disclosure templates set out in this paper are substantially similar to those set out in the Basel disclosure standard.

¹ Unless otherwise specified, section references used in this paper are to those of the BDR as amended by the BDAR 2013.

- 2.2 In the previous consultation paper on *Implementation of Basel III disclosure standards in Hong Kong* (D1) issued in 29 June 2012, two approaches were highlighted in relation to national discretion concerning the use of common disclosure templates (see paragraphs 11 to 15 of D1). The HKMA proposed, and the industry agreed, that “Approach 2” would be the more logical. Under this approach, disclosures to be made by AIs will reflect primarily their regulatory capital as calculated under applicable local regulations (viz., the Banking (Capital) Rules (“BCR”)) as opposed to a “pure Basel III basis” under Approach 1. Accordingly, the format of the standard disclosure templates proposed in this paper is designed on the basis of Approach 2.

3. Application

- 3.1 The standard templates set out in this paper will be required to be used by all locally incorporated AIs, except those that are able to meet the exemption criteria outlined in section 3(7) or section 3(8) of the BDR, as the case requires.
- 3.2 AIs will be required to use the templates, in the manner described below, from the date of the publication of their first set of financial statements relating to a balance sheet date on or after 30 June 2013.

4. Capital Disclosures Template

- 4.1 Set out at Annex 1 is the “Capital Disclosures Template” (together with an Explanatory Note for its application) that the HKMA proposes an AI should use for making disclosures on the elements of its regulatory capital specified in subsections (1)(a), (b), (e) and (f) of section 24 and section 45 of the BDR under either of the following circumstances:
- (i) where the AI is making disclosures relating to a balance sheet date on or after 1 January 2018 when the phase-in period for capital deductions has ended, or
 - (ii) where the disclosures the AI is making in relation to any balance sheet date prior to 1 January 2018 already reflect full capital deductions (i.e. the AI has fully phased-in capital deductions within a shorter period than the transition period permitted under section 3 of Schedule 4H of the BCR), in which case the AI must disclose clearly that it is using this template

because it has already applied full capital deductions under the BCR.

- 4.2 Any AI making disclosures on the basis of full capital deduction in either of the above circumstances will not be required to make disclosures under the “Transition Disclosures Template” described in the next section.

5. Transition Disclosures Template

- 5.1 Until such time as an AI can make disclosures in relation to a balance sheet date on which it has fully phased in the capital deductions in the BCR, the HKMA proposes that an AI should make disclosures on the breakdown of its regulatory capital using the “Transition Disclosures Template” included (together with an Explanatory Note for its application) at Annex 2.
- 5.2 As its name suggests, the template is proposed to be used by an AI to make disclosures during the transition period only. It will be replaced by the “Capital Disclosures Template” once the transitional period for introducing regulatory capital deductions is over. Accordingly, unless an AI elects to phase-in the capital deductions required under the BCR in advance of the timeline in the BCR, the AI would be required to use the Transition Disclosures Template for all reporting periods relating to a balance sheet date on or after 30 June 2013 until the phase-in of regulatory capital deductions under the BCR ends on 1 January 2018.

6. Main Features Template

- 6.1 Under sections 24(1)(c) and 45(1)(c) of the BDR, an AI must describe in its disclosures the main features of the Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments which it has issued. The HKMA proposes to adopt the “Main Features Template” set out at Annex 3 for this purpose. The template sets out the minimum level of summary information that an AI must disclose in respect of each regulatory capital instrument issued. Where necessary, an AI will be able to expand the template in order to cover any key features of an instrument that are not already included in the template, by inserting sub-rows under existing rows or additional rows under the last row (i.e. without affecting the original row numbers of the template).

- 6.2 To provide an overview of its capital structure, an AI should complete the template covering all outstanding capital instruments as of 30 June 2013 and subsequent issues made thereafter. The template must therefore include disclosures relating to capital instruments which are subject to the transitional arrangements. An AI should also report each capital instrument (including ordinary shares) in a separate column of the template, such that the completed template will provide a “Main Features Report” that summarises all of the regulatory capital instruments of the AI.
- 6.3 According to section 24(6) (and similarly section 45(6)) of the BDR, an AI must update the information included in the template as soon as practicable. An AI must ensure that the template is updated and made publicly available whenever a capital instrument is issued or repaid and whenever there is any redemption, conversion/write-down or other material change in the nature of an existing capital instrument.

7. Balance Sheet Reconciliation

- 7.1 For the purposes of meeting the disclosure requirement specified in section 24(1)(b) and section 45(1)(b) of the BDR, an AI is required to disclose a full reconciliation of all capital components to its audited financial statements based on a “3-step approach” to show the link between the balance sheet in the published financial statements and the numbers which are used in the Capital Disclosures Template or the Transition Disclosures Template (whichever is applicable). The HKMA proposes that the three steps should be reflected in an AI’s disclosures in the manner summarised below and as further explained and illustrated at Annex 4.

Step 1: An AI should disclose the reported balance sheet under the regulatory scope of consolidation. If, however, the scope of regulatory consolidation and accounting consolidation of an AI is identical, the AI will not be required to undertake this step. Instead, it should disclose this fact and move to Step 2.

Step 2: An AI should expand the rows in relation to the balance sheet under the regulatory scope of consolidation to display all components which are included in the Capital Disclosures Template or Transition Disclosures Template

(whichever is applicable).

Step 3: Finally, an AI should map each of the components that are disclosed in Step 2 to the Capital Disclosures Template or Transition Disclosures Template (whichever is applicable) by inserting a cross-reference for each row item.

8. Medium of disclosure

8.1 Under sections 24(3) and 45(3) of the BDR, an AI must include the standard disclosure templates in the interim or annual financial statements which it publishes or, alternatively, the interim or annual financial statements must include a direct link to the relevant sections of the AI's website where the full set of completed standard disclosure templates can be found. In this regard, an AI will be required to maintain a "Regulatory Disclosures" section on its website where all the information relating to the disclosure of regulatory capital will be housed. The direct link to this page must be prominently displayed on the home page of an AI's website such that capital related disclosures will be easily available to market participants. In cases where disclosure requirements have been met through publicly available regulatory reports, the Regulatory Disclosures section of an AI's website will have to provide specific links to these reports.