SECRET

SURVEY ON OFF-BALANCE SHEET EXPOSURES IN DERIVATIVES AND SECURITIZATION TRANSACTIONS

Position as at ______________________

(please enter the relevant month and year)

Name of Authorized Institution	Date of Submission

Notes on completion:

1. Please read the completion instructions before filling in this form.
2. Please complete this form and return it to the HKMA through **STET** not later than 4 weeks after the end of June and December each year unless otherwise advised by the HKMA.

Name / Title and telephone number of the responsible person who may be contacted by the HKMA in case of any question

Name / Title	Telephone Number

Off-balance sheet exposures in derivatives and securitization transactions

Section A: Derivatives

Table 1 Trading Book (HK$' 000)

	Interest Rate		Foreign Exchange		Equity		Commodity		Other	
	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value
1 Exchange-traded derivatives										
2 OTC derivatives other than credit derivatives										
(a) Forwards										
(b) Swaps										
(c) Bought option positions										
(d) Written option positions										
(e) Other										
Subtotal										

	AAA to A-		BBB+ to BBB-		BB+ or below		Unrated	
	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value
3 Credit derivatives								
(a) Credit derivatives - bought protection								
(b) Of which: reference entity / reference obligation is								
i. Sovereign								
ii. Public sector entity								
iii. Bank								
iv. Non-bank financial institution (e.g. securities firms, insurance firms, investment banks, fund houses)								
v. Investment fund or highly leveraged institution (e.g. hedge funds)								
vi. Corporate								
vii. Tranche of MBS, ABS or CDO								
viii. Other								
Subtotal								
(c) Credit derivatives - sold protection								
(d) Of which: reference entity / reference obligation is								
i. Sovereign								
ii. Public sector entity								
iii. Bank								
iv. Non-bank financial institution (e.g. securities firms, insurance firms, investment banks, fund houses)								
v. Investment fund or highly leveraged institution (e.g. hedge funds)								
vi. Corporate								
vii. Tranche of MBS, ABS or CDO								
viii. Other								
Subtotal								
4 Total (sum of items 1, 2 and 3)								

Table 2 Banking Book

(HK$' 000)

	Interest Rate		Foreign Exchange		Equity		Commodity		Other	
	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value
1 Exchange-traded derivatives										
2 OTC derivatives other than credit derivatives										
(a) Forwards										
(b) Swaps										
(c) Bought option positions										
(d) Written option positions										
(e) Other										
Subtotal										

	AAA to A-		BBB+ to BBB-		BB+ or below		Unrated	
	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value	Notional amount	Current market value
3 Credit derivatives								
(a) Credit derivatives - bought protection								
(b) Of which: reference entity / reference obligation is								
i. Sovereign								
ii. Public sector entity								
iii. Bank								
iv. Non-bank financial institution (e.g. securities firms, insurance firms, investment banks, fund houses)								
v. Investment fund or highly leveraged institution (e.g. hedge funds)								
vi. Corporate								
vii. Tranche of MBS, ABS or CDO								
viii. Other								
Subtotal								
(c) Credit derivatives - sold protection								
(d) Of which: reference entity / reference obligation is								
i. Sovereign								
ii. Public sector entity								
iii. Bank								
iv. Non-bank financial institution (e.g. securities firms, insurance firms, investment banks, fund houses)								
v. Investment fund or highly leveraged institution (e.g. hedge funds)								
vi. Corporate								
vii. Tranche of MBS, ABS or CDO								
viii. Other								
Subtotal								
4 Total (sum of items 1, 2 and 3)								

Table 3 Counterparty

(HK$' 000)

		Credit derivatives		Other derivatives	
		Notional amount	Current market value	Notional amount	Current market value
Derivatives with					
1	**Related parties**				
(a)	Parent				
(b)	Subsidiaries				
(c)	Associates / joint ventures				
(d)	Other related parties				
2	**Independent parties**				
(a)	Banks				
(b)	Non-bank financial institutions (e.g. securities firms, insurance firms, investment banks, fund houses)				
(c)	Investment funds and highly leveraged institutions (e.g. hedge funds)				
(d)	Corporates				
(e)	Other				
3	**Total** (sum of items 1 and 2)				

Section B: Securitization exposures

(HK$' 000)

		AI as originator		AI as investor	
		Principal amount	Drawn amount	Principal amount	Drawn amount
1	Unfunded securitization tranches (e.g. super senior tranche)				
2	Liquidity facilities for ABCP programmes				
3	Liquidity facilities for securitization transactions other than ABCP programmes				
4	Servicer cash advance facilities				
5	Credit enhancements				
6	Interest rate / currency derivatives				
7	Other				
8	**Total**				

		AI as originator
		Principal amount
9	Outstanding securities issued under securitization transactions	

Completion Instructions

Survey on Off-balance Sheet Exposures in

Derivatives and Securitization Transactions

Introduction

1. This survey collects information on off-balance sheet exposures in derivatives and securitization transactions of authorized institutions.

General Instructions

2. All authorized institutions are required to complete the survey. Locally incorporated institutions should report their combined positions of Hong Kong and overseas offices. Institutions incorporated outside Hong Kong should report the positions of their Hong Kong offices only.

3. The survey should show the positions as at the last calendar day of June and December and should be submitted to the HKMA not later than 4 weeks after the end of the two months. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

4. Amounts should be reported to the nearest thousand in HK$ or HK$ equivalents. The closing middle market T/T rates prevailing at the reporting date should be used for conversion purposes.

Definition

5. Definitions listed below are same as those in the Banking (Capital) Rules except for the terms that are printed in ***bold italic text.***

6. For the purpose of this survey:

   (a) **Banking book** covers all exposures not included in the trading book.

   (b) **Commodity contracts** means derivative contracts the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying commodity or an underlying commodity index. These include contracts based on any precious metal (other than gold), base metal, non-precious metal, energy, agricultural asset or any other physical product which is traded on an exchange.

   (c) **Credit derivative** means a forward, swap, option or similar derivative contract entered into by two parties with the intention to transfer credit risk in relation to a reference obligation from one party ("protection buyer") to the other party ("protection seller").

(d) **Credit enhancement** means a contractual arrangement whereby a person retains or assumes a securitization exposure under a securitization transaction and provides, in substance, some degree of credit protection to one or more than one party to the transaction.

(e) **Equity contracts** means futures, forwards, swaps, options, warrants or similar derivative contracts the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying equity or an underlying equity index.

(f) **Foreign exchange contracts** means derivative contracts the value of which is determined by reference to the value of, or any fluctuation in the value of, an underlying currency (including gold) or an underlying currency index. These contracts include cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options and any other instruments of a similar nature.

(g) ***Highly leveraged institution*** means a financial institution which has a combination of the following characteristics:

(i) it is subject to very little or no direct regulatory oversight;

(ii) it is generally subject to very limited disclosure requirements, compared with regulated financial institutions and/or publicly traded companies, and is not subject to rating by credit rating agencies; and

(iii) it takes on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and capital.

(h) **Interest rate contracts** means derivative contracts the value of which changes in response to changes in interest rates. These contracts include single currency interest rate swaps, basis swaps, forward rate agreements, interest rate futures, interest rate options and any other instruments of a similar nature, but exclude contracts the underlying exposure of which is a debt security or an index calculated by reference to a basket of debt securities.

(i) **Investor**, in relation to a securitization transaction, means any person, other than the originator in the transaction, who assumes securitization exposures.

(j) **Liquidity facility** means a contractual agreement pursuant to which the reporting institution provides funding in respect of a securitization transaction to ensure the timeliness of cash flows to investors in the securitization issues in the transaction.

(k) **Originator** means a person who directly or indirectly originates the underlying assets in a securitization transaction, or serves as a sponsor of an asset-backed commercial paper programme (ABCP) or a programme with similar features.

(l) ***Public sector entity*** means

(i) any municipal, regional or local government of a country;

(ii) an entity specified by a banking supervisory authority outside Hong Kong to be a public sector entity for the purposes of implementing Basel capital accords;

(iii) a government-sponsored entity (e.g. Fannie Mae) which is not falling within (ii); or

(iv) a domestic public sector entity specified in Part 1 of Schedule 1 to the Banking (Capital) Rules. Domestic public sector entities currently are:

- MTR Corporation Limited
- Kowloon-Canton Railway Corporation
- Hong Kong Housing Authority
- Hospital Authority
- Airport Authority
- The Hong Kong Mortgage Corporation Limited
- Urban Renewal Authority
- Hong Kong Link 2004 Limited
- Hong Kong Trade Development Council
- Ocean Park Corporation

(m) ***Securitization exposures*** means credit exposures to a securitization transaction. For the avoidance of doubt, exposures to securitization transactions without a tranching of credit risk (e.g. mortgage-backed securities issued or guaranteed by the Hong Kong Mortgage Corporation) are also included.

(n) **Servicer cash advance facility**, in relation to a reporting institution which provides credit administration services in respect of the securitized assets in a securitization transaction, means a contractual agreement pursuant to which the institution advances cash in respect of the transaction to ensure an uninterrupted flow of payments to investors in the securities issued under the transaction.

(o) **Sovereign** means the Government of the Hong Kong Special Administrative Region, the central government or central bank of a country, an authority of a country which performs in the country functions similar to the functions performed by the Monetary Authority of Hong Kong, or a relevant international organization specified in Part 10 of Schedule 1 to the Banking (Capital) Rules. Relevant international organizations currently are:

(i) Bank for International Settlements
(ii) International Monetary Fund
(iii) European Central Bank
(iv) European Community

(p) **Trading book**, in relation to a locally incorporated reporting institution, means the institution's exposures in financial instruments and commodities where

(i) the financial instruments and commodities are held

- with the intention of trading; or
- for the purposes of hedging one or more of the exposures in other financial instruments and commodities which are held with the intention of trading;

(ii) the financial instruments are free of any restrictive covenants on tradability, or the exposures in the financial instruments and commodities are able to be completely hedged; and

(iii) the exposures are frequently and accurately valued and actively managed.

In the case of an overseas incorporated reporting institution, "trading book" means the institution's exposures falling within the definition of "trading book" as defined by its home banking supervisor for capital adequacy ratio purposes.

Specific Instructions

Section A: Derivatives

7. This section collects information of all derivative exposures (both long and short positions) of the reporting institution except those which should be reported in Section B. The exposures should be reported in both *notional amount* and *current market value*.

Tables 1 and 2

8. Notional amounts should be reported in absolute values without netting. Positive and negative current market values can be netted within each item listed in the survey form (e.g. within interest rate swaps) but cannot be netted across different items (e.g. between interest rate options and interest rate swaps).

9. Trading book exposures and banking book exposures should be reported in Table 1 and Table 2 respectively.

10. Items 1 and 2 of Table 1 and Table 2 capture derivative contracts that are not credit derivatives.

Credit derivatives

11. In item 3, report credit derivatives in the appropriate columns according to the credit ratings of their reference entities or reference obligations, whichever is applicable.

12. Credit ratings assigned by Standard & Poor's (S&P), Moody's, Fitch and Rating and Investment Information, Inc. are used for the purposes of this survey. The credit rating notations used in the survey form are those of S&P. If a reference entity / reference obligation is rated by a credit rating agency other than S&P, the reporting institution should map the rating of the reference entity / reference obligation to the equivalent rating of S&P according to the relevant mapping table provided in the Annex.

13. If the reference obligation of a credit derivative is unrated but its obligor has an issuer rating, the reporting institution can report the credit derivative according to such issuer rating, provided that the obligation is a senior obligation of the obligor.

14. The treatments for credit derivatives linked to multiple-names or index are as follows:

(a) where the derivative is a first-to-default contract,

- the relevant credit rating is the lowest credit rating assigned to the reference entities;
- the relevant type of reference entity is the type to which the reference entity carrying such lowest rating belongs;

(b) where the derivative is a second-to-default contract,

- the relevant credit rating is the second lowest credit rating assigned to the reference entities;
- the relevant type of reference entity is the type to which the reference entity carrying such second lowest rating belongs;

(c) the same principles above apply to other subsequent-to-default credit derivatives.

15. For credit derivatives with structures other than those mentioned above, reporting institution should consult the HKMA on the reporting arrangements.

16. Items 3(b)(vii) and 3(d)(vii) collect information of credit derivatives which provide credit protection to a specified tranche of a particular mortgage-backed security (MBS), asset-backed security (ABS), collateralised debt obligation [1] (CDO) or structured credit product with similar features such that the protection seller has to make payment to the protection buyer when certain credit events occur to the tranche, e.g. reduction in the principal amount of the tranche because of credit losses in the underlying assets of the structured credit product.

Table 3 Counterparty

17. In Table 3, report the derivative exposures by type of counterparty.

[1] CDO include collateralised loan obligations, collateralised bond obligations and collateralised mortgage obligations.

18. Unlike Tables 1 and 2, netting should not be applied to both notional amount and current market value. Absolute values should be reported.

Section B Securitization exposures

19. This section collects information of the reporting institution's off-balance sheet securitization exposures incurred as an originator and/or investor.

20. Principal amount means the limit or contracted amount of a facility or credit enhancement, or the notional amount in the case of derivative contracts.

21. Interest rate / currency derivatives in item 6 refer to derivative contracts entered into by the reporting institution with parties (e.g. issuers) to securitization transactions such that interest rate and/or currency risks in the transactions (e.g. mismatch in the currency of denomination and/or basis of interest calculation between the securities issued and the securitized assets) can be hedged.

22. Item 9 captures the amount of outstanding securities issued under securitization transactions of which the reporting institution is the originator. These securities are usually held by investors and therefore in general not on-balance sheet exposures of the reporting institution.

Hong Kong Monetary Authority
November 2008

Annex

Long-term ratings

Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc.
AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-
A+ A A-	A1 A2 A3	A+ A A-	A+ A A-
BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
B+ B B- CCC+ CCC CCC- CC C D	B1 B2 B3 Caa1 Caa2 Caa3 Ca C	B+ B B- CCC+ CCC CCC- CC C D	B+ B B- CCC+ CCC CCC- CC C

Short-term ratings

Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings	Rating and Investment Information, Inc
A-1+ A-1	P-1	F1+ F1	a-1+ a-1
A-2	P-2	F2	a-2
A-3	P-3	F3	a-3
B B-1 B-2 B-3 C D	NP	B C D	b c