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Banking (Disclosure) (Amendment) Rules 2016

(Made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) after consultation with the Financial Secretary, the Banking Advisory Committee, the Deposit-taking Companies Advisory Committee, The Hong Kong Association of Banks and The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

1. Commencement

These Rules come into operation on 31 March 2017.

2. Banking (Disclosure) Rules amended

The Banking (Disclosure) Rules (Cap. 155 sub. leg. M) are amended as set out in sections 3 to 43.

3. Section 2 amended (interpretation)

(1) Section 2(1)—

Repeal the definition of *annual reporting period*

Substitute

“*annual reporting period* (周年報告期), in relation to an authorized institution, means a financial year of the institution;”.

(2) Section 2(1)—

Repeal the definition of *interim reporting period*

Substitute

“*interim reporting period* (中期報告期), in relation to an authorized institution, means the first 6 months of a financial year of the institution;”.

- (3) Section 2(1), definition of *off-balance sheet exposures*, before “means”—

Add

“, in relation to leverage ratio,”.

- (4) Section 2(1), definition of *on-balance sheet exposures*, before “means”—

Add

“, in relation to leverage ratio,”.

- (5) Section 2(1)—

Repeal the definition of *reporting period*

Substitute

“*reporting period* (報告期) means—

- (a) an annual reporting period;
- (b) a semi-annual reporting period;
- (c) a quarterly reporting period; or
- (d) an interim reporting period;”.

- (6) Section 2(1), Chinese text, definition of 槓桿比率模版—

Repeal the semicolon

Substitute a full stop.

- (7) Section 2(1)—

- (a) definition of *active market*;
- (b) definition of *applicable JCCyB ratio*;
- (c) definition of *associate*;
- (d) definition of *available-for-sale*;
- (e) definition of *capital conservation buffer ratio*;
- (f) definition of *cash and balances with banks*;
- (g) definition of *countercyclical capital buffer ratio*;

- (h) definition of *deposits and balances from banks*;
- (i) definition of *derivative exposures*;
- (j) definition of *effective interest method*;
- (k) definition of *effective interest rate*;
- (l) definition of *exchange rate-related derivative contract*;
- (m) definition of *exposure type*;
- (n) definition of *financial assets or financial liabilities measured at fair value through profit or loss*;
- (o) definition of *general wrong-way risk*;
- (p) definition of *G-SIB*;
- (q) definition of *held-to-maturity investments*;
- (r) definition of *higher loss absorbency ratio*;
- (s) definition of *Hong Kong Internet website*;
- (t) definition of *interest rate derivative contract*;
- (u) definition of *investment property*;
- (v) definition of *loans and receivables*;
- (w) definition of *premises and equipment expense*;
- (x) definition of *private sector credit exposures*;
- (y) definition of *protection provider*;
- (z) definition of *securities financing transaction exposures*;
- (za) definition of *specific wrong-way risk*;
- (zb) definition of *surplus provisions*;
- (zc) definition of *swap deposit arrangement*—

Repeal the definitions.

- (8) Section 2(1)—

Add in alphabetical order

“*quarterly reporting period* (季度報告期), in relation to an authorized institution, means the first, second, third or fourth 3-month period of a financial year of the institution;

semi-annual reporting period (半年度報告期), in relation to an authorized institution, means the first or second 6-month period of a financial year of the institution;”.

4. Section 3 amended (application)

(1) Section 3—

Repeal subsections (1) and (2)

Substitute

“(1) Subject to section 12, the following provisions apply to an authorized institution incorporated in Hong Kong unless it is exempted under subsection (7) or (14A)—

- (a) Part 2;
- (b) provisions of Part 2A requiring disclosures for each annual reporting period;
- (c) the following provisions, in so far as they relate to a quarterly or semi-annual reporting period (as the case requires) that ends at the close of an annual reporting period—
 - (i) provisions of Part 2A requiring disclosures for each quarterly or semi-annual reporting period;
 - (ii) Part 2B;
 - (iii) Part 3;
- (d) Part 4.

- (2) Subject to section 12, the following provisions apply to an authorized institution incorporated in Hong Kong unless it is exempted under subsection (8) or (14A)—
- (a) the following provisions, in so far as they relate to a quarterly or semi-annual reporting period (as the case requires) that ends otherwise than at the close of an annual reporting period—
 - (i) provisions of Part 2A requiring disclosures for each quarterly or semi-annual reporting period;
 - (ii) Part 2B;
 - (iii) Part 3;
 - (b) Part 3A.”.
- (2) Section 3—
- Repeal subsections (3), (4) and (5).**
- (3) Section 3(6), after “subsection (9)” —
- Add**
- “or (14A)”.
- (4) Section 3(7)—
- Repeal**
- “For the purposes of subsection (1), the”
- Substitute**
- “The”.
- (5) Section 3(7)—
- Repeal**
- “Parts 2 and 4”
- Substitute**

“the provisions specified in subsection (1)(a), (b), (c) and (d)”.

- (6) Section 3(8)—

Repeal

“For the purposes of subsection (2), the”

Substitute

“The”.

- (7) Section 3(8)—

Repeal

“Part 3”

Substitute

“the provisions specified in subsection (2)(a) and (b)”.

- (8) Section 3(8)—

Repeal paragraph (a)

Substitute

“(a) the institution is exempted under subsection (7) from the application of the provisions specified in subsection (1)(a), (b), (c) and (d); or”.

- (9) After section 3(14)—

Add

“(14A) The Monetary Authority may, by notice in writing given to an authorized institution, exempt the institution from the application of these Rules if the Monetary Authority is satisfied that the institution has not commenced business.

(14B) If the Monetary Authority is satisfied that an authorized institution which is exempted under subsection (14A) has commenced business, the Monetary Authority may, by notice in writing given

to the institution, inform the institution that it ceases to be so exempted from the date specified in the notice.”.

5. Section 4 amended (references to authorized institution in Part 2)

Section 4—

Repeal

“which falls within”

Substitute

“to which this Part applies under”.

6. Section 5 amended (disclosure policy)

Section 5—

Repeal everything before paragraph (a)

Substitute

“An authorized institution must have in place, within 6 months after the date on which it became an authorized institution or such longer period as the Monetary Authority may specify, a clearly documented disclosure policy—”.

7. Section 6 amended (medium and location of disclosure and issue of press release)

(1) Section 6, heading—

Repeal

“Medium and location”

Substitute

“Medium, location and timing”.

(2) Section 6(1)—

Repeal

everything before “authorized”

Substitute

“(1) Subject to section 24(5) and (6), if an”.

- (3) Section 6(1), English text—

Repeal

“shall”

Substitute

“must”.

- (4) Section 6(1)(a)—

Repeal

everything after “preparing”

Substitute

“, in the Chinese and English languages, a disclosure statement—

(i) that, subject to subsection (1A) and section 15, is in the form exclusively of a standalone document or a discrete section of the institution’s financial statements; and

(ii) in which the information required to be disclosed is readily identifiable;”.

- (5) Section 6(1)—

Repeal paragraph (ab)**Substitute**

“(ab) subject to subsection (1A) and section 15, presenting the information required to be disclosed in the format, and using the standard disclosure templates, specified by the Monetary Authority; and”.

(6) Section 6(1)—

Repeal paragraph (b).

(7) After section 6(1)—

Add

“(1A) If it is so permitted by the Monetary Authority in specification under subsection (1)(ab) and if all the conditions specified in subsection (1B) are met, any part of the information required to be disclosed may be contained in a separate document that is signposted in the standalone document or the discrete section of the authorized institution’s financial statements (*discrete section*).

(1B) The conditions are—

- (a) that the authorized institution signposts clearly, in the standalone document or the discrete section, the location where the information published elsewhere is published, providing, at a minimum, the following information—
 - (i) a reference to the format and templates specified by the Monetary Authority to which the signposting relates;
 - (ii) the full title of the separate document in which the information is published;
 - (iii) a link to the relevant section of the institution’s website where the separate document can be accessed (if applicable); and
 - (iv) the page and paragraph number of the separate document where the information is located; and

- (b) that the level of assurance on the reliability of data in the separate document is equivalent to, or greater than, the internal assurance level required for the information presented in the standalone document or the discrete section.
- (1C) For disclosures under Part 2A or 2B for a quarterly reporting period that ends otherwise than at the close of an interim or annual reporting period, the authorized institution must publish the disclosure statement—
 - (a) if the authorized institution publishes its quarterly financial statements for the quarterly reporting period (*quarterly financial statements*) within 8 weeks after the end of the quarterly reporting period—concurrently with the publication of the quarterly financial statements; or
 - (b) if the authorized institution does not publish the quarterly financial statements within 8 weeks after the end of the quarterly reporting period—within that 8-week period.
- (1D) For disclosures under Part 2A, 2B, 3 or 3A for a reporting period that is, or ends at the close of, an interim reporting period, the authorized institution must publish the disclosure statement—
 - (a) if the authorized institution publishes its interim financial statements for the interim reporting period (*interim financial statements*) within 3 months after the end of the quarterly, semi-annual or interim reporting period to which the disclosure statement relates (*specified reporting period*)—concurrently with the publication of the interim financial statements; or

- (b) if the authorized institution does not publish the interim financial statements within 3 months after the end of the specified reporting period—within that 3-month period.
- (1E) For disclosures under Part 2A, 2B, 3 or 4 for a reporting period that is, or ends at the close of, an annual reporting period, the authorized institution must publish the disclosure statement—
 - (a) if the authorized institution publishes its annual financial statements for the annual reporting period (*annual financial statements*) within 4 months after the end of the quarterly, semi-annual or annual reporting period to which the disclosure statement relates (*specified reporting period*)—concurrently with the publication of the annual financial statements; or
 - (b) if the authorized institution does not publish the annual financial statements within 4 months after the end of the specified reporting period—within that 4-month period.”.
- (8) Section 6—

Repeal subsection (3)

Substitute

- “(3) An authorized institution must ensure that when its disclosure statement is published—
- (a) the statement contains all the disclosures required under these Rules to be made by the institution for the reporting periods to which the statement relates; and
 - (b) the disclosures referred to in paragraph (a) are not false or misleading in any material respect.

- (3A) An authorized institution must ensure that when its disclosure statement for an annual reporting period is published, the statement—
- (a) describes the key elements of its disclosure policy referred to in section 5; or
 - (b) provides a cross-reference to another location where the description referred to in paragraph (a) is readily accessible by the general public.”.

- (9) Section 6—

Repeal subsection (4)

Substitute

- “(4) At the same time as an authorized institution publishes its disclosure statement for any reporting period that is, or ends at the close of, either an interim or annual reporting period, the institution must issue a press release to the press in Hong Kong, in the Chinese and English languages, containing the statement or consisting of the statement.”.

- (10) Section 6(7)—

Repeal

“subsections (8) and (9)”

Substitute

“subsection (8)”.

- (11) Section 6—

Repeal subsection (8)

Substitute

- “(8) Subject to sections 24(4) and (5), 24A(5), 30(2) and 51(2), if an authorized institution publishes a disclosure statement containing the disclosures referred to in subsection (3)(a), it must ensure that

the statement is available for inspection under subsection (7) for at least 12 months beginning on the date of publication of the statement.”.

(12) Section 6—

Repeal subsections (9) and (10).

(13) Section 6—

Repeal subsection (10A)

Substitute

“(10A) Subject to sections 24(4), 24A(5), 30(2) and 51(2), an authorized institution—

(a) must establish and maintain an archive of all disclosure statements relating to reporting periods ending on or after 30 June 2013; and

(b) unless otherwise approved by the Monetary Authority, must establish and maintain the archive on the institution’s website.”.

(14) Section 6—

Repeal subsection (11).

8. Section 7 repealed (interaction of other requirements)

Section 7—

Repeal the section.

9. Section 8 amended (verification)

(1) Section 8(1), before “senior management”—

Add

“board of directors (or a committee designated by the board) and the”.

- (2) After section 8(2)—

Add

“(3) An authorized institution must ensure that one or more members of the senior management of the institution attest in writing that the disclosures made by the institution pursuant to these Rules have been prepared in accordance with the internal review and internal control processes approved by the institution’s board of directors.

- (4) The internal review and internal control processes applied to the information disclosed by an authorized institution under these Rules for a reporting period that is, or ends at the close of, an interim or annual reporting period must be no less stringent than those applied to the information provided by the institution within the management discussion and analysis part of its financial statements.”.

10. Section 11 amended (consolidated group level disclosures)

- (1) Section 11(4)—

Repeal paragraphs (a), (b) and (c)

Substitute

“(a) sections 23, 25, 26, 27, 28 and 29;
(b) sections 29B, 30, 30A and 30B; or
(c) sections 35, 44, 46, 47, 51, 51A, 51B and 52.”.

- (2) Section 11(4)—

Repeal paragraph (d).

- (3) Section 11(5)—

Repeal

“subsection (4)(a), (b), (c) and (d) shall”

Substitute

“subsection (4)(a), (b) and (c) must”.

(4) Section 11(6)—

Repeal

“49, 50 and 51 shall”

Substitute

“30A, 30B, 51, 51A and 51B must”.

11. Section 12 amended (basis of disclosure)

(1) Section 12—

Renumber the section as section 12(1).

(2) After section 12(1)—

Add

“(2) If an authorized institution is exempted, under the Capital Rules, from the requirement to calculate its capital requirements or capital charge for its credit risk, market risk or operational risk (as the case requires), the institution—

- (a) is not required to make disclosures pertaining to the approach; but
- (b) must instead disclose that fact.”.

12. Section 13 repealed (comparative information)

Section 13—

Repeal the section.

13. Section 14 substituted

Section 14—

Repeal the section

Substitute

“14. Frequency

- (1) An authorized institution must make disclosures pursuant to Part 2A for each annual, semi-annual and quarterly reporting period, as that Part requires.
- (2) An authorized institution must make disclosures pursuant to Part 2B for each quarterly reporting period.
- (3) Subject to section 24(6), an authorized institution must make disclosures pursuant to Part 3 for each semi-annual reporting period.
- (4) An authorized institution must make disclosures pursuant to Part 3A for each interim reporting period.
- (5) An authorized institution must make disclosures pursuant to Part 4 for each annual reporting period.”.

14. Section 15 amended (group-wide disclosures made by parent bank of authorized institution)

Section 15(g)—

Repeal

everything after “has”

Substitute

“an Internet website (or section of an Internet website) which—

- (i) is specifically intended to be accessible by the general public in Hong Kong; and
- (ii) contains a link to the section of the parent bank's Internet website setting out the foreign disclosures as referred to in paragraph (f).”.

15. Parts 2A and 2B added

After Part 2—

Add

“Part 2A

Specific Disclosures to be Made by Authorized Institutions Incorporated in Hong Kong

Division 1—Preliminary

16A. References to authorized institution in Part 2A

Unless the context otherwise requires, a reference to an authorized institution in a provision of this Part—

- (a) requiring—
 - (i) disclosures for an annual reporting period; or
 - (ii) disclosures for a quarterly or semi-annual reporting period, in so far as the provision relates to such a period that ends at the close of an annual reporting period,is a reference to an authorized institution to which the provision applies under section 3(1); and

- (b) requiring disclosures for a quarterly or semi-annual reporting period, in so far as the provision relates to such a period that ends otherwise than at the close of an annual reporting period, is a reference to an authorized institution to which the provision applies under section 3(2).

Division 2—Overview of Risk Management and Risk-weighted Amount

16B. Overview of risk management—annual disclosures

An authorized institution must disclose, for each annual reporting period, a description of—

- (a) its risk management objectives and policies; and
- (b) how the board of directors and senior management of the institution assess and manage risks,

that is necessary and relevant for understanding its risk tolerance or appetite in relation to its main activities and all significant risks inherent in or associated with those activities.

16C. Overview of risk-weighted amount—quarterly disclosures

An authorized institution must disclose, for each quarterly reporting period—

- (a) an overview of its capital requirements by providing a detailed breakdown of its—
 - (i) risk-weighted amount for credit risk;
 - (ii) risk-weighted amount for market risk; and

- (iii) risk-weighted amount for operational risk;
and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the quarterly reporting period.

Division 3—Linkages between Financial Statements and Regulatory Exposures

16D. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories—annual disclosures

- (1) An authorized institution must disclose, for each annual reporting period, information on its assets and liabilities that is necessary and relevant for identifying the differences between—
 - (a) the scope of accounting consolidation applicable to the institution; and
 - (b) the scope of regulatory consolidation applicable to the institution.
- (2) The disclosure under subsection (1) must include a breakdown into regulatory risk categories of every item of the assets and liabilities reported in the institution's financial statements based on the scope of accounting consolidation applicable to the institution.

16E. Main sources of differences between regulatory exposure amounts and carrying values in financial statements—annual disclosures

An authorized institution must disclose, for each annual reporting period, information on the main sources of differences between—

- (a) the carrying value amounts in its financial statements; and
- (b) the exposure amounts used to calculate its capital requirements,

in respect of its assets and liabilities based on the scope of regulatory consolidation applicable to the institution.

16F. Explanations of differences between accounting and regulatory exposure amounts—annual disclosures

An authorized institution must disclose, for each annual reporting period, qualitative explanations of the differences disclosed under sections 16D and 16E.

Division 4—Credit Risk for Non-securitization Exposures

16G. General information about credit risk—annual disclosures

An authorized institution must disclose, for each annual reporting period, the main characteristics and elements of its credit risk management, including—

- (a) its business model;
- (b) its credit risk profile; and
- (c) its organization and functions involved in credit risk management and risk management reporting.

16H. Credit quality of exposures—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period, an overview of the credit quality of its on-balance sheet exposures and off-balance sheet exposures.

16I. Changes in defaulted loans and debt securities—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) the changes in its defaulted loans and debt securities, including—
 - (i) any changes in the amounts of defaulted exposures;
 - (ii) any movement between defaulted and non-defaulted exposures; and
 - (iii) any reductions in the defaulted exposures due to write-offs; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16J. Additional disclosures related to credit quality of exposures—annual disclosures

An authorized institution must disclose, for each annual reporting period, additional qualitative and quantitative information on the credit quality of its exposures to supplement the information disclosed under sections 16H and 16I.

16K. Qualitative disclosures related to credit risk mitigation—annual disclosures

An authorized institution must disclose, for each annual reporting period, qualitative information on its policies and processes relating to the use of credit risk mitigation.

16L. Overview of recognized credit risk mitigation—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) the extent of credit risk exposures covered by different types of recognized credit risk mitigation; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16M. Qualitative disclosures on use of ECAI ratings under STC approach—annual disclosures

An authorized institution using the STC approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each annual reporting period, information on—

- (a) the process it adopts for using ECAI ratings; and
- (b) the extent to which the ratings are used for its risk-weighted amount calculation.

16N. STC approach or BSC approach: credit risk exposures and effects of recognized credit risk mitigation—semi-annual disclosures

An authorized institution using the STC approach or the BSC approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) the effects of any recognized credit risk mitigation (including recognized collateral based on the comprehensive approach or the simple approach or both) on the calculation of its capital requirements under the STC approach or the BSC approach (as the case requires); and
- (b) an explanation of any material changes in the effects referred to in paragraph (a) during the semi-annual reporting period.

16O. STC approach or BSC approach: credit risk exposures by asset classes and by risk-weights—semi-annual disclosures

An authorized institution using the STC approach or the BSC approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) a breakdown of credit risk exposures by asset classes and by risk-weights corresponding to the categorization of exposures according to the STC approach or the BSC approach (as the case requires); and
- (b) an explanation of any material changes in the exposures referred to in paragraph (a) during the semi-annual reporting period.

16P. Qualitative disclosures related to internal models for measuring credit risk under IRB approach—annual disclosures

- (1) An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each annual reporting period—
 - (a) additional information on its internal models used to calculate the risk-weighted amount for credit risk, describing the main characteristics of the models used at the group-wide level (according to the scope of regulatory consolidation applicable to the institution); and
 - (b) an explanation of how the scope of the models described is determined.
- (2) The disclosures must include the percentage of risk-weighted amounts covered by the models for each of the institution's regulatory portfolios.

16Q. IRB approach: credit risk exposures by portfolio and PD ranges—semi-annual disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period, the main parameters of its internal models used for the calculation of capital requirements.

16R. IRB approach: effects on risk-weighted amount of recognized credit derivative contracts used as recognized credit risk mitigation—semi-annual disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) the effects of recognized credit derivative contracts on the calculation of its risk-weighted amounts under the IRB approach; and
- (b) an explanation of the effects referred to in paragraph (a).

16S. Risk-weighted amount flow statements of credit risk exposures under IRB approach—quarterly disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each quarterly reporting period—

- (a) a flow statement explaining changes in the risk-weighted amount for credit risk determined under the IRB approach; and
- (b) an explanation of any material changes in the risk-weighted amount referred to in paragraph (a) during the quarterly reporting period.

16T. IRB approach: back-testing of PD per portfolio—annual disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each annual reporting period—

- (a) back-testing data to validate the reliability of PD calculations, including a comparison of the PD used to calculate capital requirements with the effective default rates of the obligors; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the annual reporting period.

16U. IRB approach: specialized lending under supervisory slotting criteria approach and equities under simple risk-weight method—semi-annual disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) quantitative information in respect of its specialized lending under the supervisory slotting criteria approach and its equity exposures for which it uses the simple risk-weight method; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

Division 5—Counterparty Credit Risk

16V. Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)—annual disclosures

An authorized institution must disclose, for each annual reporting period—

- (a) a description of its counterparty credit risk management objectives and policies, including those related to—
 - (i) the setting of operating limits;
 - (ii) the use of guarantees and other forms of credit risk mitigation;
 - (iii) the risk that arises when the probability of default of counterparties is positively correlated with general market risk factors; and
 - (iv) the specific wrong-way risk as defined by section 226A of the Capital Rules; and
- (b) the impact on the institution in terms of the amount of collateral that it would have to provide if there were a downgrade in its credit rating.

16W. Analysis of counterparty default risk exposures, other than those to CCPs, by approaches—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of default risk exposures (other than those to CCPs), risk-weighted amounts and, where applicable, main parameters used, under the approaches used by the institution to calculate its default risk exposures in respect of derivative contracts and SFTs; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16X. CVA capital charge—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) information on the portfolios subject to the CVA capital charge and the CVA calculations based on the approach the institution uses to calculate the CVA capital charge; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16Y. STC approach or BSC approach: counterparty default risk exposures, other than those to CCPs, by asset classes and by risk-weights—semi-annual disclosures

An authorized institution using the STC approach or the BSC approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) a breakdown of default risk exposures (other than those to CCPs) by asset classes and by risk-weights in respect of derivative contracts and SFTs, irrespective of the approach used to determine the amount of default risk exposures; and
- (b) an explanation of any material changes in the exposures referred to in paragraph (a) during the semi-annual reporting period.

16Z. IRB approach: counterparty default risk exposures, other than those to CCPs, by portfolio and PD scale—semi-annual disclosures

An authorized institution using the IRB approach to calculate its credit risk capital requirements for non-securitization exposures must disclose, for each semi-annual reporting period—

- (a) all relevant parameters used for the calculation of counterparty default risk capital requirements (other than those arising from exposures to CCPs);
- (b) (if it uses the foundation IRB approach for certain exposures and the advanced IRB approach for other exposures) 2 separate sets of portfolio breakdown by the 2 approaches;
- (c) the key models used at the group-wide level for the calculation of counterparty credit risk exposures (other than those to CCPs) according to the scope of regulatory consolidation applicable to the institution and an explanation of how the scope of the models is determined, including the percentage of risk-weighted amounts covered by each of the models for each portfolio; and
- (d) an explanation of any material changes in the matters referred to in each of paragraphs (a), (b) and (c) during the semi-annual reporting period.

16ZA. Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of all types of collateral posted by the institution to support, or recognized collateral received by the institution to reduce, the counterparty default risk exposures in respect of derivative contracts or SFTs, including contracts or transactions cleared through a CCP; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16ZB. Credit-related derivative contracts—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) the amount of its credit-related derivative contracts, broken down into credit protection bought and credit protection sold; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16ZC. Risk-weighted amount flow statements of default risk exposures under IMM(CCR) approach—quarterly disclosures

An authorized institution using the IMM(CCR) approach to calculate its default risk exposures in respect of derivative contracts or SFTs must disclose, for each quarterly reporting period—

- (a) a flow statement explaining changes in the risk-weighted amount for default risk exposures determined under the IMM(CCR) approach; and
- (b) an explanation of any material changes in the risk-weighted amount referred to in paragraph (a) during the quarterly reporting period.

16ZD. Exposures to CCPs—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of its exposures to both qualifying and non-qualifying CCPs and the respective risk-weighted amounts, including—
 - (i) default risk exposures to the CCPs; and
 - (ii) credit risk exposures arising from initial margins posted, and default fund contributions made, to the CCPs; and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

Division 6—Securitization Exposures**16ZE. Qualitative disclosures related to securitization exposures—annual disclosures**

An authorized institution must disclose, for each annual reporting period, qualitative information on its strategy and risk management with respect to its securitization activities.

16ZF. Securitization exposures in banking book—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of its securitization exposures in the banking book (regardless of whether the exposures arise from securitization transactions that satisfy all the requirements in Schedule 9 or 10 (as the case requires) to the Capital Rules); and
- (b) an explanation of any material changes in the exposures referred to in paragraph (a) during the semi-annual reporting period.

16ZG. Securitization exposures in trading book—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of its securitization exposures in the trading book (regardless of whether the exposures arise from securitization transactions that satisfy all the requirements in Schedule 9 or 10 (as the case requires) to the Capital Rules); and
- (b) an explanation of any material changes in the exposures referred to in paragraph (a) during the semi-annual reporting period.

16ZH. Securitization exposures in banking book and associated capital requirements, where authorized institution acts as originator—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of—
 - (i) its securitization exposures in the banking book arising from securitization transactions—
 - (A) of which the institution is an originating institution; and
 - (B) that satisfy all the requirements in Schedule 9 or 10 (as the case requires) to the Capital Rules; and
 - (ii) the associated capital requirements of the exposures referred to in subparagraph (i); and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16ZI. Securitization exposures in banking book and associated capital requirements, where authorized institution acts as investor—semi-annual disclosures

An authorized institution must disclose, for each semi-annual reporting period—

- (a) a breakdown of—
 - (i) its securitization exposures in the banking book arising from securitization transactions of which the institution is an investing institution; and

- (ii) the associated capital requirements of the exposures referred to in subparagraph (i); and
- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

Division 7—Market Risk

16ZJ. Qualitative disclosures related to market risk—annual disclosures

An authorized institution must disclose, for each annual reporting period, a description of its market risk management objectives and policies.

16ZK. Additional qualitative disclosures for authorized institution using IMM approach—annual disclosures

An authorized institution using the IMM approach to calculate its market risk capital requirements must disclose, for each annual reporting period—

- (a) the scope and the main characteristics of the different models used for calculating the market risk capital requirements; and
- (b) the key modelling choices adopted in respect of the models.

16ZL. Market risk under STM approach—semi-annual disclosures

An authorized institution using the STM approach to calculate its market risk capital requirements must disclose, for each semi-annual reporting period—

- (a) the components of its market risk capital requirements calculated using the STM approach; and
- (b) an explanation of any material changes in the components referred to in paragraph (a) during the semi-annual reporting period.

16ZM. Risk-weighted amount flow statements of market risk exposures under IMM approach—quarterly disclosures

An authorized institution using the IMM approach to calculate its market risk capital requirements must disclose, for each quarterly reporting period—

- (a) a flow statement explaining changes in the risk-weighted amount for market risk determined under the IMM approach; and
- (b) an explanation of any material changes in the risk-weighted amount referred to in paragraph (a) during the quarterly reporting period.

16ZN. IMM approach values for market risk exposures—semi-annual disclosures

An authorized institution using the IMM approach to calculate its market risk capital requirements must disclose, for each semi-annual reporting period—

- (a) the maximum, minimum, average and period-end values for the reporting period resulting from the different models used for calculating the market risk capital requirements at the group-wide level (according to the scope of regulatory consolidation applicable to the institution); and

- (b) an explanation of any material changes in the matters referred to in paragraph (a) during the semi-annual reporting period.

16ZO. Comparison of VaR estimates with gains or losses—semi-annual disclosures

An authorized institution using the IMM approach to calculate its market risk capital requirements must disclose, for each semi-annual reporting period—

- (a) a comparison of the results of estimates from the key VaR model used for calculating the market risk capital requirements with both hypothetical and actual trading outcomes—
 - (i) to highlight the frequency and the extent of the back-testing exceptions; and
 - (ii) to give an analysis of the main outliers in back-tested results; and
 - (b) without limiting paragraph (a)—
 - (i) the VaR model referred to in paragraph (a) used at the group-wide level (according to the scope of regulatory consolidation applicable to the institution); and
 - (ii) an explanation of the extent of their coverage at the group-wide level.
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Part 2B

Additional Quarterly Disclosures to be Made by Authorized Institutions Incorporated in Hong Kong

16ZP. References to authorized institution in Part 2B

Unless the context otherwise requires, a reference to an authorized institution in a provision of this Part—

- (a) in so far as the provision relates to a quarterly reporting period that ends at the close of an annual reporting period, is a reference to an authorized institution to which the provision applies under section 3(1); and
- (b) in so far as the provision relates to a quarterly reporting period that ends otherwise than at the close of an annual reporting period, is a reference to an authorized institution to which the provision applies under section 3(2).

16ZQ. Key capital ratios disclosures

- (1) If an authorized institution is required under section 3C of the Capital Rules to calculate its capital adequacy ratio on a consolidated basis, the institution must disclose each of the following calculated on that basis—
 - (a) its CET1 capital ratio;
 - (b) its Tier 1 capital ratio;
 - (c) its Total capital ratio;
 - (d) its leverage ratio;

- (e) the numerator and the denominator used for calculating each of the ratios set out in paragraphs (a), (b), (c) and (d).
- (2) If subsection (1) does not apply to an authorized institution, the institution must disclose the following calculated on a solo basis or solo-consolidated basis, as the case requires—
 - (a) its CET1 capital ratio;
 - (b) its Tier 1 capital ratio;
 - (c) its Total capital ratio;
 - (d) its leverage ratio;
 - (e) the numerator and the denominator used for calculating each of the ratios set out in paragraphs (a), (b), (c) and (d).”.

16. Part 3 heading amended (interim financial disclosures to be made by authorized institutions incorporated in Hong Kong)

Part 3, heading—

Repeal

“Interim Financial”

Substitute

“Additional Semi-annual”.

17. Section 17 substituted

Section 17—

Repeal the section

Substitute

“17. References to authorized institution in Part 3

Unless the context otherwise requires, a reference to an authorized institution in a provision of this Part—

- (a) in so far as the provision relates to a semi-annual reporting period that ends at the close of an annual reporting period, is a reference to an authorized institution to which the provision applies under section 3(1); and
- (b) in so far as the provision relates to a semi-annual reporting period that ends otherwise than at the close of an annual reporting period, is a reference to an authorized institution to which the provision applies under section 3(2).”.

18. Sections 19 to 22 repealed

Sections 19, 20, 21 and 22—

Repeal the sections.

19. Section 24 amended (capital disclosures)

(1) Section 24(1)—

Repeal everything before paragraph (a)

Substitute

- “(1) An authorized institution must disclose the following information regarding its capital base prepared on the specified basis—”.
- (2) After section 24(1)—

Add

“(1A) In subsection (1)—

specified basis (指明基礎), in relation to disclosures for a semi-annual reporting period, means—

-
- (a) if a period for which a return relating to capital adequacy is submitted by the authorized institution pursuant to section 63 of the Ordinance ends at the close of the semi-annual reporting period—the basis on which the return is prepared; or
- (b) had a period for which such a return is required to be submitted by the institution pursuant to that section 63 ended at the close of the semi-annual reporting period—the basis on which the return would have been required to be prepared.”.
- (3) Section 24(3)—
- Repeal**
- “interim” (wherever appearing).
- (4) After section 24(3)—
- Add**
- “(3A) In subsection (3), the financial statements—
- (a) in relation to disclosures for a semi-annual reporting period that is an interim reporting period, refer to the interim financial statements for the interim reporting period; and
- (b) in relation to disclosures for a semi-annual reporting period that ends at the close of an annual reporting period, refer to the annual financial statements for the annual reporting period.”.
- (5) Section 24—
- Repeal subsection (8)**
- Substitute**

“(8) An authorized institution must disclose the capital conservation buffer ratio and (if applicable) the higher loss absorbency ratio that are to apply in calculating the institution’s buffer level in the manner specified in paragraph (a), (b) or (c) of section 3I(1) of the Capital Rules, as required by the Monetary Authority under that section.”.

(6) Section 24—

Repeal subsections (9) and (10).

(7) Section 24(12), Chinese text, definition of 有關資本短欠—

Repeal the full stop

Substitute a semicolon.

(8) Section 24(12)—

Add in alphabetical order

“*capital conservation buffer ratio* (防護緩衝資本比率) has the meaning given by section 3E of the Capital Rules;

higher loss absorbency ratio (較高吸收虧損能力比率) has the meaning given by section 3E of the Capital Rules;”.

20. Section 24A amended (leverage ratio disclosures)

(1) Section 24A(2)(a) and (4)(a) and (b)—

Repeal

“interim”.

(2) After section 24A(4)—

Add

“(4A) In subsections (2) and (4), the financial statements—

- (a) in relation to disclosures for a semi-annual reporting period that is an interim reporting period, refer to the interim financial statements for the interim reporting period; and
- (b) in relation to disclosures for a semi-annual reporting period that ends at the close of an annual reporting period, refer to the annual financial statements for the annual reporting period.”.

(3) Section 24A—

Repeal subsections (6) and (7).

(4) At the end of section 24A—

Add

“(8) In this section—

derivative exposures (衍生工具風險承擔) means the derivative exposures as described in the leverage ratio template;

securities financing transaction exposures (證券融資交易風險承擔) means the SFT exposures as described in the leverage ratio template.”.

21. Section 24B amended (countercyclical capital buffer ratio disclosures)

(1) Section 24B—

Renumber the section as section 24B(1).

(2) After section 24B(1)—

Add

“(2) In this section—

applicable JCCyB ratio (適用JCCyB比率) has the meaning given by section 3N of the Capital Rules;

countercyclical capital buffer ratio (逆周期緩衝資本比率) has the meaning given by section 3E of the Capital Rules;

private sector credit exposures (私人機構信用風險承擔) has the meaning given by section 3N of the Capital Rules.”.

22. Section 28 substituted

Section 28—

Repeal the section

Substitute

“28. Mainland activities

(1) An authorized institution must disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the specified categories.

(2) In subsection (1)—

specified categories (指明類別), in relation to disclosures for a semi-annual reporting period, means—

(a) if a period for which a return of Mainland activities is submitted by the authorized institution pursuant to section 63 of the Ordinance ends at the close of the semi-annual reporting period—the categories that the institution’s Mainland exposures to non-bank counterparties are broken down into in the return; or

(b) had a period for which such a return is required to be submitted by the institution pursuant to that section 63 ended at the close of the semi-

annual reporting period—the categories that the institution’s Mainland exposures to non-bank counterparties would have been required to be broken down into in the return.”.

23. Section 29 amended (currency risk)

(1) Section 29(1)—

Repeal

“in respect of the interim reporting period”.

(2) After section 29(1)—

Add

“(1A) In subsection (1), the return relating to foreign currency positions—

(a) in relation to disclosures for a semi-annual reporting period that is an interim reporting period, refers to such a return for the interim reporting period; and

(b) in relation to disclosures for a semi-annual reporting period that ends at the close of an annual reporting period, refers to such a return for the annual reporting period.”.

24. Part 3A heading added

After section 29—

Add

“Part 3A

Interim Disclosures to be Made by Authorized Institutions Incorporated in Hong Kong”.

25. Sections 29A and 29B added

Part 3A, before section 30—

Add

“29A. References to authorized institution in Part 3A

Unless the context otherwise requires, a reference to an authorized institution in this Part is a reference to an authorized institution to which this Part applies under section 3(2).

29B. Interim financial disclosures

An authorized institution must make interim financial disclosures in compliance with the prevailing accounting standards applicable to the institution.”.

26. Part 4 heading amended (annual financial disclosures to be made by authorized institutions incorporated in Hong Kong)

Part 4, heading—

Repeal

“Annual Financial”

Substitute

“Additional Annual”.

27. Section 31 amended (references to authorized institution in Part 4)

Section 31—

Repeal

“which falls within”

Substitute

“to which this Part applies under”.

28. Sections 32, 33 and 34 repealed

Sections 32, 33 and 34—

Repeal the sections.

29. Section 35 substituted

Section 35—

Repeal the section

Substitute

“35. Annual financial disclosures

An authorized institution must make annual financial disclosures in compliance with the prevailing accounting standards applicable to the institution.”.

30. Sections 36 to 43 repealed

Sections 36, 37, 38, 39, 40, 41, 42 and 43—

Repeal the sections.

31. Sections 45, 45A and 45B repealed

Sections 45, 45A and 45B—

Repeal the sections.

32. Section 45C amended (disclosure requirements for G-SIBs)

(1) Section 45C—

Repeal subsection (2)

Substitute

- “(2) An authorized institution that does not fall within the description in subsection (1) must, if so directed by the Monetary Authority under subsection (2A), disclose the information regarding its systemic importance as set out in subsection (3).
- (2A) The Monetary Authority may give a direction to an authorized institution for the purposes of subsection (2) if—
- (a) the institution or, if applicable, its consolidation group had, as at 31 December immediately preceding the current reporting period, an exposure measure exceeding EUR 200 billion or equivalent (using the exchange rate prevailing on that day); or
 - (b) the Monetary Authority, having regard to the characteristics of the institution, has reason to believe that the institution would be capable of having a significant impact on the effective working and stability of the global financial system were the institution to become non-viable.”.

(2) After section 45C(5)—

Add

- “(6) In this section—

G-SIB has the meaning given by section 3E of the Capital Rules.”.

33. Section 46 amended (general disclosures)

- (1) Section 46—

Repeal subsections (7), (8), (9) and (10).

- (2) Section 46(11), definition of *major business activity*, paragraph (d)—

Repeal the semicolon

Substitute a full stop.

- (3) Section 46(11)—

(a) definition of *international claim*;

(b) definition of *major country or geographical segment*;

(c) definition of *recognized risk transfer*—

Repeal the definitions.

34. Section 47 substituted

Section 47—

Repeal the section

Substitute

“47. Sector information

(1) Subsection (2) applies if an authorized institution’s total amount of loans and advances to a counterparty type, or to a sector that has been classified by the institution as an industry sector, constitutes not less than 10% of the institution’s total amount of loans and advances.

(2) The institution must, in respect of that counterparty type or industry sector (as the case requires), disclose the amount of new provisions charged to profit and loss, and the amount of impaired loans and advances written off during the annual reporting period.”.

35. Sections 48, 49 and 50 repealed

Sections 48, 49 and 50—

Repeal the sections.

36. Sections 51C and 51D added

After section 51B—

Add

“51C. Operational risk

An authorized institution must disclose each approach for operational risk capital assessment it uses to calculate its exposure to operational risk.

51D. Interest rate exposures in banking book

An authorized institution must, in respect of its interest rate exposures that arise from its banking book positions, disclose—

- (a) the nature of the risk;
- (b) the key assumptions the institution uses in its measurement of the risk (including assumptions regarding loan prepayments and the behaviour of deposits without a fixed maturity);
- (c) the frequency of its measurement of the risk; and
- (d) the variations in earnings or economic value (or other relevant measures used by the institution) for significant upward and downward interest rate movements in accordance with the method the institution uses for stress-testing, broken down by currency, if relevant.”.

- 37. Part 5 repealed (additional annual disclosures to be made by authorized institution using STC approach to calculate its credit risk for non-securitization exposures)**

Part 5—

Repeal the Part.

- 38. Part 6 repealed (additional annual disclosures to be made by authorized institution using BSC approach to calculate its credit risk for non-securitization exposures)**

Part 6—

Repeal the Part.

- 39. Part 7 repealed (additional annual disclosures to be made by authorized institution using IRB approach to calculate its credit risk for non-securitization exposures)**

Part 7—

Repeal the Part.

- 40. Section 87 amended (references to authorized institution, etc. in Part 8)**

Section 87(1)—

Repeal

“which falls within”

Substitute

“to which this Part applies under”.

- 41. Section 92A added**

Part 8, Division 3, before section 93—

Add

“92A. Interpretation of Division 3

In this Division—

active market (活躍市場), in relation to any financial assets, means a market at which the quoted price of the assets—

- (a) is readily obtainable and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and
- (b) reflects actual and regularly occurring transactions involving the assets, which take place on an arm’s length basis;

cash and balances with banks (現金及銀行結餘) means—

- (a) cash in the till;
- (b) demand deposits with banks; and
- (c) deposits with banks which have a residual contractual maturity of not more than one month;

deposits and balances from banks (尚欠銀行存款及結餘), in relation to an authorized institution—

- (a) means all amounts which arise out of banking transactions owed by the institution to other banks; but
- (b) does not include such amounts taking the form of debt securities or certificates of deposit issued by the institution;

investment property (投資物業), in relation to an authorized institution, means any immovable property—

- (a) which is owned by the institution, or held by the institution as a lessee under a finance lease, to

earn rentals or for capital appreciation, or both;
and

- (b) which is not held by the institution—
 - (i) for use in the production or supply of goods or services or for administrative purposes; or
 - (ii) for sale in the ordinary course of business;

loans and receivables (貸款及應收款項), in relation to an authorized institution—

- (a) means financial assets of the institution (other than derivative contracts) with fixed or determinable payments which are not quoted in an active market; but
- (b) does not include—
 - (i) financial assets which the institution—
 - (A) intends to sell immediately or in the near term; or
 - (B) designates upon initial recognition as at fair value through profit or loss;
 - (ii) financial assets which the institution designates upon initial recognition as available for sale; or
 - (iii) financial assets purchased by the institution, for which the institution may not recover substantially all of its initial investment for reasons not related to credit deterioration.”.

42. Section 96 amended (provisions supplementary to section 94: derivative transactions)

(1) Section 96(1)(a)—

Repeal

“(excluding forward foreign exchange contracts arising from swap deposit arrangements)”.

(2) After section 96(3)—

Add

“(4) In this section—

exchange rate-related derivative contract (匯率關聯衍生工具合約) has the meaning given by section 281 of the Capital Rules;

interest rate derivative contract (利率衍生工具合約) has the meaning given by section 281 of the Capital Rules.”.

43. Section 101 substituted

Section 101—

Repeal the section**Substitute****“101. Mainland activities**

(1) An authorized institution must disclose a breakdown of its Mainland exposures to non-bank counterparties, if the exposures are material, into the specified categories.

(2) In subsection (1)—

specified categories (指明類別), in relation to disclosures for a reporting period, means—

- (a) if a period for which a return of Mainland activities is submitted by the authorized institution pursuant to section 63 of the Ordinance ends at the close of the reporting period—the categories that the institution’s Mainland exposures to non-bank counterparties are broken down into in the return; or
- (b) had a period for which such a return is required to be submitted by the institution pursuant to that section 63 ended at the close of the reporting period—the categories that the institution’s Mainland exposures to non-bank counterparties would have been required to be broken down into in the return.”.

Arthur YUEN
Acting Monetary Authority

23 December 2016

Explanatory Note

These Rules are made by the Monetary Authority under section 60A of the Banking Ordinance (Cap. 155) to amend the Banking (Disclosure) Rules (Cap. 155 sub. leg. M) (*principal Rules*).

2. The main purpose of these Rules is to implement the requirements for disclosures (on an annual, semi-annual and quarterly basis) set out in the document entitled *Revised Pillar 3 disclosure requirements* issued by the Basel Committee on Banking Supervision in January 2015 (*2015 Basel Package*) (see new Part 2A added to the principal Rules). Parts 5, 6 and 7 of the principal Rules containing the existing disclosure requirements corresponding to those in the new Part 2A are repealed.
3. Presentational changes are made to the principal Rules so that certain disclosures are required for each semi-annual reporting period under Part 3 of the principal Rules (instead of those disclosures being required for each interim reporting period and for each annual reporting period under the pre-amended Parts 3 and 4 respectively). These changes will render the principal Rules more aligned with expressions relating to semi-annual disclosures in the 2015 Basel Package and help dispense with the need to duplicate Part 3 provisions in Part 4 of the principal Rules.
4. A requirement for quarterly disclosures of key regulatory capital and leverage ratios and their constituent components is added (see new Part 2B added to the principal Rules).

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5. Existing interim disclosure requirements (if retained) are grouped under new Part 3A.
6. The financial disclosure requirements contained in Parts 3 and 4 of the principal Rules are amended to remove duplications with the Hong Kong Financial Reporting Standards.
7. Section 45C of the principal Rules is amended to enhance the existing disclosure requirement relating to the identification of potential global systemically important authorized institutions.
8. These Rules come into operation on 31 March 2017.