



Supervisory Policy Manual

GL

Glossary

10.04.25

This module, which should be read in conjunction with the [Contents](#) and with the [Introduction](#), contains a list of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

1. Abbreviations

AI	Authorized Institution ¹
AMB	Approved Money Broker ¹
FATF	Financial Action Task Force ²
FSF	The Financial Stability Forum ²
FSB	The Financial Stability Board ²
GN	Guidance note ²
HKMA	Hong Kong Monetary Authority ²
HKSARG	The Government of the Hong Kong Special Administrative Region
MA	Monetary Authority ²
MPF	Mandatory Provident Fund
MPFA	Mandatory Provident Fund Schemes Authority
Para.	Paragraph

¹ As defined in the Banking Ordinance (Cap. 155)

² See Common terms below.



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SG	Statutory guideline ²
SPM	Supervisory Policy Manual
TN	Technical note ²
§	Section (of Ordinance)

2. Common terms

Basel Committee	The Basel Committee on Banking Supervision
Board of Directors	In the case of AIs incorporated outside Hong Kong, this refers to their head office unless otherwise specified in the SPM module concerned.
Capital base	For AIs incorporated in Hong Kong, the term is as defined in the Banking (Capital) Rules (Cap. 155L). For AIs incorporated in jurisdictions outside Hong Kong that have adopted the Basel Committee's capital framework, this refers to the capital base of their head offices. For all other AIs, this means the capital and reserves, excluding provisions, of their head offices.
Classified loans	Loans in the Substandard, Doubtful and Loss categories as defined under the HKMA's loan classification framework
Controller	As defined in §2 of the Banking Ordinance, it includes: <ul style="list-style-type: none">• indirect controller – a person in accordance with whose directions or instructions the directors of the AI[#] or of another company of which it is a subsidiary are accustomed to act;



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	<ul style="list-style-type: none">• minority shareholder controller – a person who either alone or with associates controls 10% or more, but not more than 50%, of the voting rights of the AI[#] or of another company of which it is a subsidiary; and• majority shareholder controller – a person who either alone or with associates controls over 50% of the voting rights of the AI[#] or of another company of which it is a subsidiary. <p>[#] shall also apply to an AMB</p>
Counterparty	Any party to which an AI, directly or indirectly, has an exposure.
Country risk	Refers to the possibility that sovereign borrowers of a particular jurisdiction, or other borrowers in that jurisdiction, may be unable or unwilling to fulfil their foreign obligations for reasons (e.g. political or social upheaval, nationalization or expropriation, government repudiation of external debts or exchange controls) that are beyond the usual risks which arise in relation to all credit exposures.
Default	Failure to service a credit exposure in accordance with agreed terms or occurrence of an event defined in the credit documentation as an event of default, e.g. late or incomplete payments of principal or interest, or infringement of any other material provision of the credit documentation.
Financial Action Task Force	A global standard-setter for combatting money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. As of end-2024, FATF consists of 38 countries/territories (including Hong Kong and China) and two international organisations: the European Commission and Gulf Cooperation Council.



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The Financial Stability Forum / The Financial Stability Board	<p>Convened in April 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. By bringing together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors and committees of central bank experts, the FSF seeks to coordinate the efforts of these bodies to promote financial stability, improve the functioning of markets and reduce systemic risk.</p> <p>The Financial Stability Board was established in April 2009 as the successor to the Financial Stability Forum, which has assumed a key role in promoting international financial stability and the reform of international financial regulation and supervision.</p>
Guidance notes	<p>Non-statutory guidelines issued to AIs/AMBs as guidance notes – these are best practice guides setting out the HKMA's recommendations to AIs/AMBs in respect of the standards they should aim to achieve, subject to the size, complexity and scope of activities of the AIs/AMBs.</p> <p>Failure to adhere to such guidelines may call into question whether the AI/AMB concerned continues to satisfy the minimum criteria for authorization/approval under the Banking Ordinance.</p>
Hong Kong Monetary Authority	The organisation that carries out the functions of the Monetary Authority.
Internal risk rating system or internal rating system	<p>A process or methodology that assigns a rating to a credit exposure based on an AI's assessment of the credit risk inherent in the credit exposure.</p> <p>The rating assigned to a credit exposure is referred to as "internal credit rating", "internal risk rating" or "internal rating".</p>



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Large exposure	An exposure to a counterparty or a group of linked counterparties which is greater than or equal to 10% of an AI's Tier 1 capital.
Monetary Authority	The legal person who has the right to exercise the relevant powers under the Banking Ordinance.
Non-performing loan	Defined as a loan on which interest is being placed in suspense or interest accrual has ceased.
Risk-adjusted return (credit facility)	<p>The expected return on a credit facility, calculated as the gross revenue net of the funding cost and adjusted for the inherent credit risk - an AI should have an expected default probability for credit facilities grouped under each category of internal risk ratings. This default probability, which is based on historical experience, should be translated into a percentage, usually in terms of basis points, by which the net return on a loan is notionally reduced to produce a risk-adjusted rate of return.</p> <p>In the absence of a sophisticated internal risk rating system or requisite data on past losses, an alternative is to compute the expected risk-adjusted return as the net income (without adjustment for potential loss) expressed as a percentage of the on-balance sheet exposure and/or the credit equivalent amount of any off-balance sheet exposure arising from the facility (see the Banking (Capital) Rules (Cap. 155L) for details of how credit equivalent amounts are computed).</p>
Risk concentration	An exposure or a group of exposures with common characteristics, e.g. borrowers operating in similar or related industries, countries or loans collateralised on similar assets such as residential properties, such that any adverse changes to the common characteristics may give rise to significant losses for an AI.



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Statutory guidelines	<p>Statutory guidelines issued by the MA under the Banking Ordinance, e.g. §§7(3), 16(10) and 118C(7) – these set out the minimum standards with which AIs/AMBs are expected to comply to satisfy the requirements of the Banking Ordinance. In addition to minimum standards, statutory guidelines may also embody best practices or advisory standards. The HKMA will use different wording to differentiate these from minimum standards. For example, in describing best practices or advisory standards, the HKMA will normally use such phrases as AIs/AMBs “should preferable”, “should ideally”, “may”, “are encouraged to” or “are recommended to” adopt such practices or standards whereas minimum standards will typically be described in more definitive terms as standards which AIs/AMBs “should”, “are expected to” or “must” follow. Statutory guidelines do not themselves have the force of law.</p> <p>Failure to adhere to any of these guidelines may call into question whether the AI/AMB concerned continues to satisfy the minimum criteria for authorization/approval under the Banking Ordinance. In addition, it may constitute a contravention of the relevant provision or requirement of the Banking Ordinance.</p>
Subsidiary	<p>As defined in §15 of the Companies Ordinance (Cap. 622), a body corporate is a subsidiary of another body corporate if that other body corporate is a holding company of it. According to §13(1) of that Ordinance, a body corporate is a holding company of another body corporate if:</p> <ul style="list-style-type: none">• it controls the composition of that other body corporate’s Board of Directors;• it controls more than half of the voting rights in that other body corporate; or• it holds more than half of that other body corporate’s issued share capital.



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	<p>Please refer to Division 4 of Part 1 of the Companies Ordinance for the full definition.</p>
Technical notes	<p>Non-statutory guidelines issued to AIs/AMBs as technical notes – these are usually technical in nature and are for the purpose of clarifying the HKMA's interpretation of regulatory and reporting issues.</p> <p>Failure to adhere to such guidelines may call into question whether the AI/AMB concerned continues to satisfy the minimum criteria for authorization/approval under the Banking Ordinance.</p>
Transfer risk	The risk that local currency cannot be converted into foreign currency to repay loans or other credit exposures denominated in that foreign currency.

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