

# Revised Pillar 3 Disclosures

Revisions to the Banking (Disclosure) Rules and independent review requirement

June 2025



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# Background



Over the last year, the Hong Kong Banking (Disclosure) Rules (BDR) have undergone significant revision, and the Hong Kong Monetary Authority (HKMA) has implemented a number of enhancements and updates to disclosure requirements and disclosure templates. The BDR has introduced several key changes to align with international standards and enhance transparency in the banking sector.

In addition to the BDR, HKMA also published a revised version of the Supervisory Policy Manual (SPM) module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules" to provide guidance on the interpretations of certain provisions of the BDR. Both the BDR and the revised SPM came into effect on 1 January 2025. In addition to the BDR, HKMA has conducted a widespread uplift of the disclosure templates with the first reporting dates for most of the new templates occurring in June 2025 or December 2025.

## Key updates

Through the latest regulatory update, HKMA has introduced 17 new and 28 revised disclosure templates and tables. These templates cover six quarterly, 27 semi-annual, and 12 annual disclosures. Certain disclosures are only required to be published by locally incorporated banks, while others are also required for Hong Kong branches of overseas banks.

Some disclosures are qualitative, while others are quantitative. For qualitative disclosures, banks must assess their financial condition and exercise judgment to determine both the scope and level of disclosure necessary to meet the regulatory standards.

Some of the newly introduced disclosure templates are designed to align with the Basel III Reforms final package and corresponding revisions to the Banking (Capital) Rules (BCR) while others, such as the revised Loss Absorbing Capacity (LAC) related disclosures are prompted by other regulatory changes. Additionally, some reporting items which have not been directly revised, may be impacted by regulatory changes, such as the criteria for high-quality liquid assets which appears within liquidity-related disclosures, being impacted by the revised risk-weights set out in the BCR.

Disclosure frequency	General disclosures with standardized templates	Numbers of new and revised disclosure templates and tables
Quarterly	<ul style="list-style-type: none"><li>[Revised] Key prudential ratios, overview of risk management and RWA (KM1, OV1)</li><li>[Revised] Leverage ratio (LR2)</li><li>[New] Credit valuation adjustment risk (CVA4)</li><li>[New] Market risk under IMA (MR2)</li><li>[New] Comparison of modelled and standardized RWA (CMS1)</li></ul>	3 New 3 Revised
Semi-annual	<ul style="list-style-type: none"><li>[Revised] Leverage ratio (LR1)</li><li>[Revised] Credit risk for non-securitization exposures (CR4, CR5, CR6, CR7, CR9 and CR10)</li><li>[Revised] Part IIA: Composition of regulatory capital (CC1 and CCA)</li><li>[Revised] Liquidity (LIQ2)</li><li>[Revised] Counterparty credit risk (CCR1, CCR3, CCR4 and CCR5)</li><li>[Revised] Securitization exposures (SEC3 and SEC4)</li><li>[Revised] Loss absorbing capacity (TLAC1, TLAC1(A), TLAC2 and TLAC3)</li><li>[New] Credit valuation adjustment risk (CVA1, CVA2 and CVA3)</li><li>[New] Market risk (MR1 and MR3)</li><li>[New] Comparison of modelled and standardized RWA (CMS2)</li><li>[New] Asset encumbrance (ENC)</li></ul>	7 New 20 Revised
Annual	<ul style="list-style-type: none"><li>[Revised] Part II: Linkages between financial statements and regulatory exposures (LI1, LI2 and LIA)</li><li>[Revised] Part III: Credit risk for non-securitization exposures (CR9)</li><li>[New] Credit valuation adjustment risk (CVAA and CVAB)</li><li>[New and Revised] Market risk (MRA and MRB)</li><li>[New] Operational risk (ORA, OR1, OR2, and OR3)</li></ul>	7 New 5 Revised

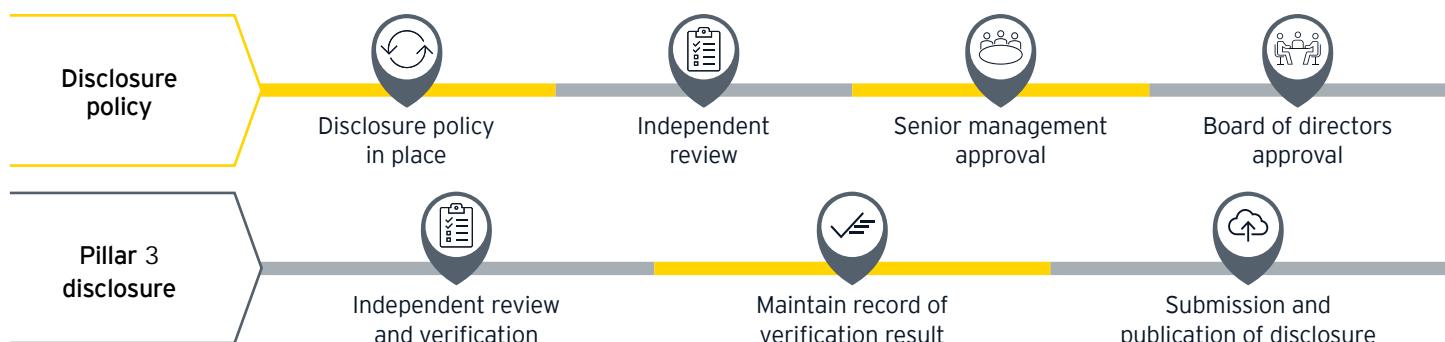
Additional disclosures should also be published by both locally and internationally incorporated banks, covering areas such as income statement and balance sheet details, consolidated-level capital adequacy ratios, and off-balance sheet exposures.

Additional disclosures to be made				
Classification	By counterparty/industry	By geographical location	By product/time band	By currency
Additional disclosures	Sector information	Overdue or rescheduled assets		
	International claims			Currency risk
	Mainland activities			

## Independent review requirements

The HKMA and BDR mandate that Pillar 3 disclosures undergo independent verification before publication. This process must be conducted by suitably qualified personnel who are separate from the staff or management responsible for preparing the disclosed information, ensuring objectivity and compliance with regulatory standards. Additionally, the verification results must be retained as a record of compliance for future inspection by the HKMA or the bank's internal audit function.

Furthermore, the BDR mandates that banks maintain a disclosure policy covering the approach to determining the content, appropriateness and frequency of information disclosed, how the bank ensures the disclosures are representative of the bank's risk profile, and controls in place to ensure the accuracy of disclosures. The policy must undergo independent review and be approved by the bank's senior management and board of directors.



## Importance of disclosures and consequences for non-compliance

The HKMA has outlined the importance of accurate disclosures and compliance with the BDR through setting out the penalties for non-compliance with the BDR and SPM. If a bank fails to meet the requirements set out in the BDR, section 4 of the SPM states that its directors, chief executives, and managers may be subject to legal consequences, including conviction and financial penalties, while the bank may face revocation of authorization.

Furthermore, the HKMA may take additional supervisory actions based on the specific circumstances, such as issuing a written notice under section 52(1)(A) of the Banking Ordinance, requiring the bank to rectify any errors or omissions in its disclosure statements.

## Common gaps and findings related to regulatory requirements

Drawing from our experience in conducting regulatory disclosure reviews across multiple foreign bank branches and locally incorporated banks in Hong Kong, we have identified key challenges that may emerge during the implementation of the new regulatory disclosure reporting requirements:

Categories	Key challenges
 Disclosure compilation and consistency issues	<ul style="list-style-type: none"><li>■ Lack of awareness where a disclosure itself is not revised but contains references to other regulations which have been revised</li><li>■ Mismatch between figures in financial disclosures and periodic banking returns previously submitted to HKMA</li><li>■ Missing explanation on material changes in figures and ratios, as compared with previous financial disclosure statement</li><li>■ Inaccuracies in reporting figures stemming from errors in spreadsheet formulas or flawed calculation logic</li></ul>
 Control and process oversight	<ul style="list-style-type: none"><li>■ Disclosure policy is not updated, independently reviewed, or formally approved by senior management and the Board of Directors</li><li>■ Misuse of disclosure templates due to inadequate familiarity with updates, resulting from irregular review and lack of control oversight requirement within the disclosure policy</li><li>■ Incomplete disclosure compilation procedures (e.g., failure to upload soft copy of financial disclosures to HKMA website)</li><li>■ Lack of change controls such as variance analysis on reported numbers compared to prior period, and regression testing where data sources have changed or calculation processes have been streamlined</li></ul>
 System capability	<ul style="list-style-type: none"><li>■ Existing processes, data and systems may not be well-equipped to handle the latest regulatory disclosure requirements, such as the new mandate for leverage ratio reporting, which now requires inclusion of a leverage ratio based on the mean value of the gross amount of assets related to securities financing transactions, calculated as of each calendar day of the reporting quarter</li><li>■ Data quality problems inherent in data from upstream systems may cause inaccurate reporting</li><li>■ Consistency issues may occur where the source system for certain data points has changed and different data fields from a new source are being used</li></ul>

# How can EY help?

Leveraging on our extensive experience working with banks in Hong Kong, we offer a broad suite of services to support the regulatory disclosure compilation process and address key challenges effectively. Our services are highly adaptable to align with each bank's specific requirements.

Services	Service descriptions
 Implementation support	<ul style="list-style-type: none"><li>■ Support the design and execution of streamlined approaches for disclosure data aggregation and reporting</li><li>■ Identify synergies and potential overlaps across banking returns and disclosure requirements to enhance efficiency and consistency</li><li>■ Provide comparative analysis against peer banks to identify opportunities for improvement and a frame of reference for qualitative disclosures</li><li>■ Provide a preparer's checklist and data validation rules for ongoing usage, based on independent review procedures that have been performed by EY for multiple banks</li></ul>
 Disclosure review	<ul style="list-style-type: none"><li>■ Evaluate the granularity and depth of qualitative disclosure statements relative to peer practice</li><li>■ Conduct validation on calculations and documentation in line with BDR requirements</li><li>■ Perform reconciliation between banking returns, working files, and disclosure statements to verify accuracy and maintain consistency across reports</li><li>■ Evaluate whether the comparative information is reported for the appropriate period (e.g., as of 30 June or 31 December) and the disclosure frequency is correct (i.e., quarterly, semi-annual and annually)</li></ul>
 Control framework review	<ul style="list-style-type: none"><li>■ Review, and where needed assist in updating disclosure policies to align with regulatory requirements and industry leading practices</li><li>■ Review effectiveness of internal controls in place for ensuring accuracy, consistency, and completeness of regulatory disclosures</li><li>■ Assess the effectiveness of the bank's reconciliation to mitigate discrepancies with other reporting and data sources, and recommend remedial actions to enhance internal control effectiveness</li></ul>

## Authored by



### Vanessa Tse

Senior Consultant  
Financial Services Risk Management  
Ernst & Young Advisory Services Ltd.  
Email: [Vanessa.Tse@hk.ey.com](mailto:Vanessa.Tse@hk.ey.com)  
Tel: +852 2675 2913



### Wing Wong

Senior Consultant  
Financial Services Risk Management  
Ernst & Young Advisory Services Ltd.  
Email: [Wing.W.Wong@hk.ey.com](mailto:Wing.W.Wong@hk.ey.com)  
Tel: +852 3758 5934

## Contact points



### Sky So

Partner  
Financial Services Risk Management  
Ernst & Young Advisory Services Ltd.  
Email: [Sky.So@hk.ey.com](mailto:Sky.So@hk.ey.com)  
Tel: +852 9664 3003



### Adam Bookless

Senior Manager  
Financial Services Risk Management  
Ernst & Young Advisory Services Ltd.  
Email: [Adam.Bookless1@hk.ey.com](mailto:Adam.Bookless1@hk.ey.com)  
Tel: +852 9664 4925

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