CONTACT GROUP ON ASSET PRICES

Turbulence in Asset Markets:

the Role of Micro Policies

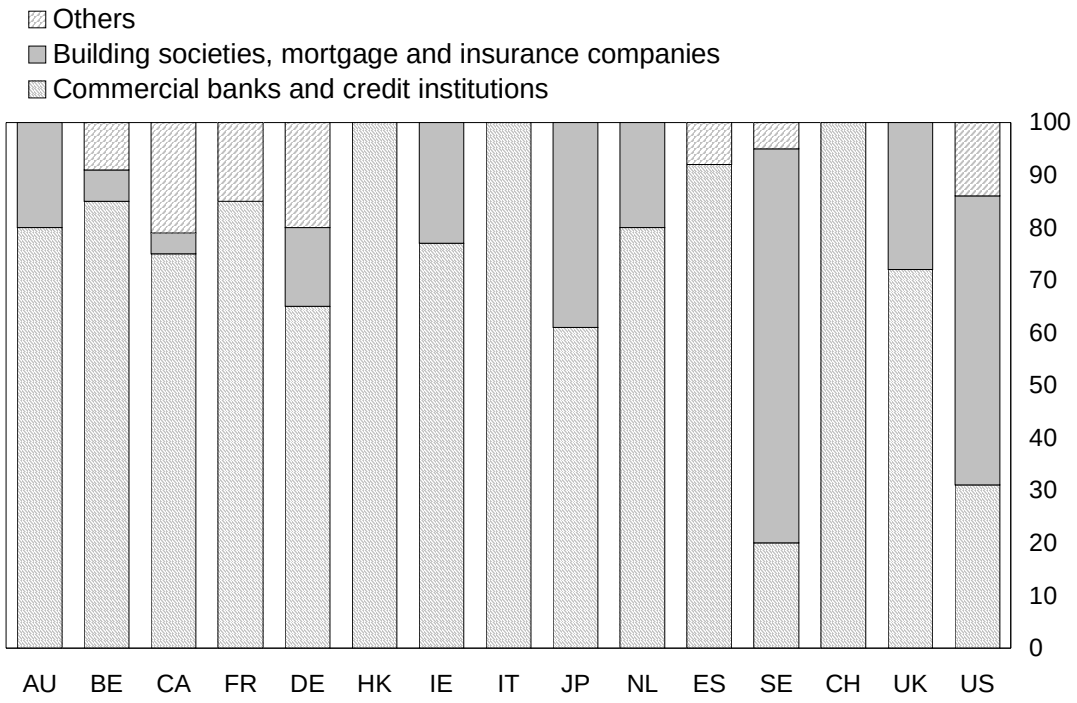
Summary of questionnaire results

As part of the fact-finding stage of the study on the role of microeconomic and structural factors related to asset prices, a questionnaire was conducted in July 2001. Its aim was to gather current information with respect to regulatory, tax and disclosure policies that are related to asset prices. Responses have been received from all 15 countries that were included in the survey.

In addition to the main report, this annex summarises specific responses to the survey and presents some comparative analysis.

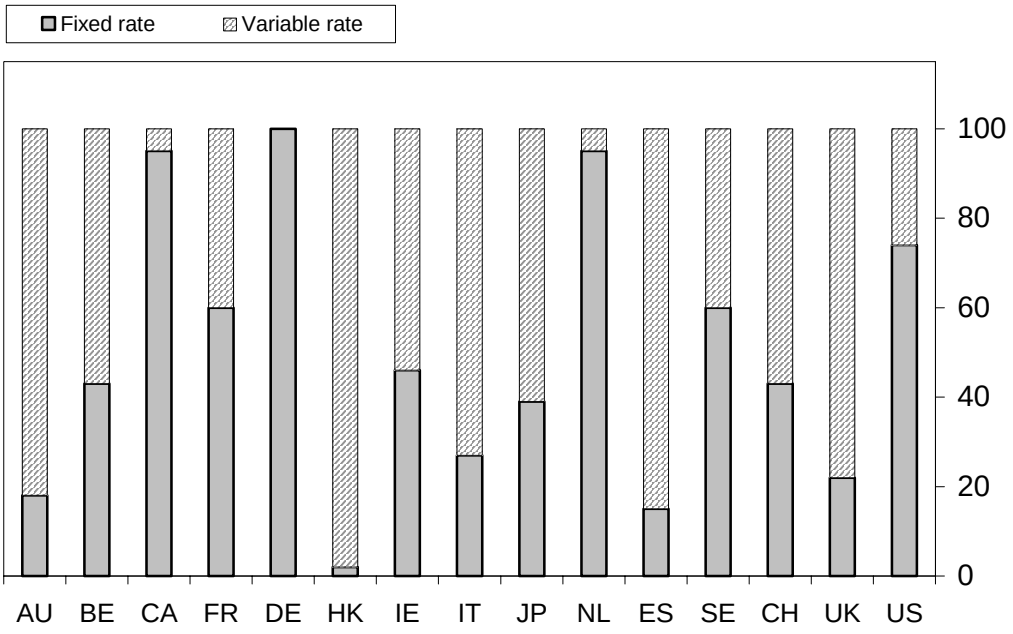
September 2002

Market share of lenders -- residential mortgages (percentages)



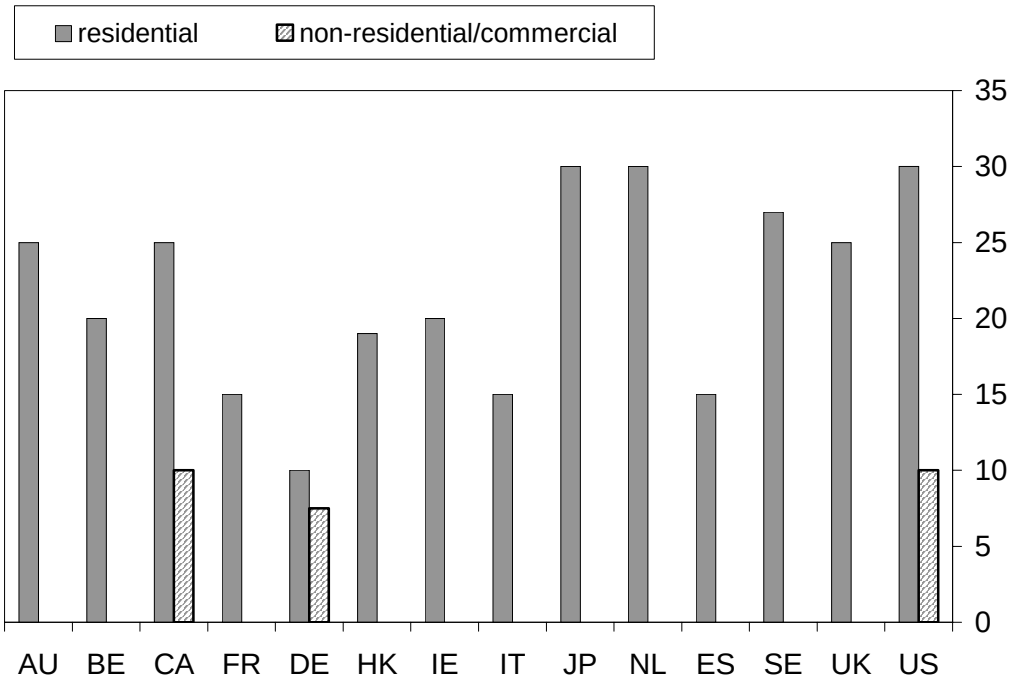
Source: replies to G10 questionnaire (20 July 2001).

Method of interest rate adjustment -- residential mortgages (in percentages)

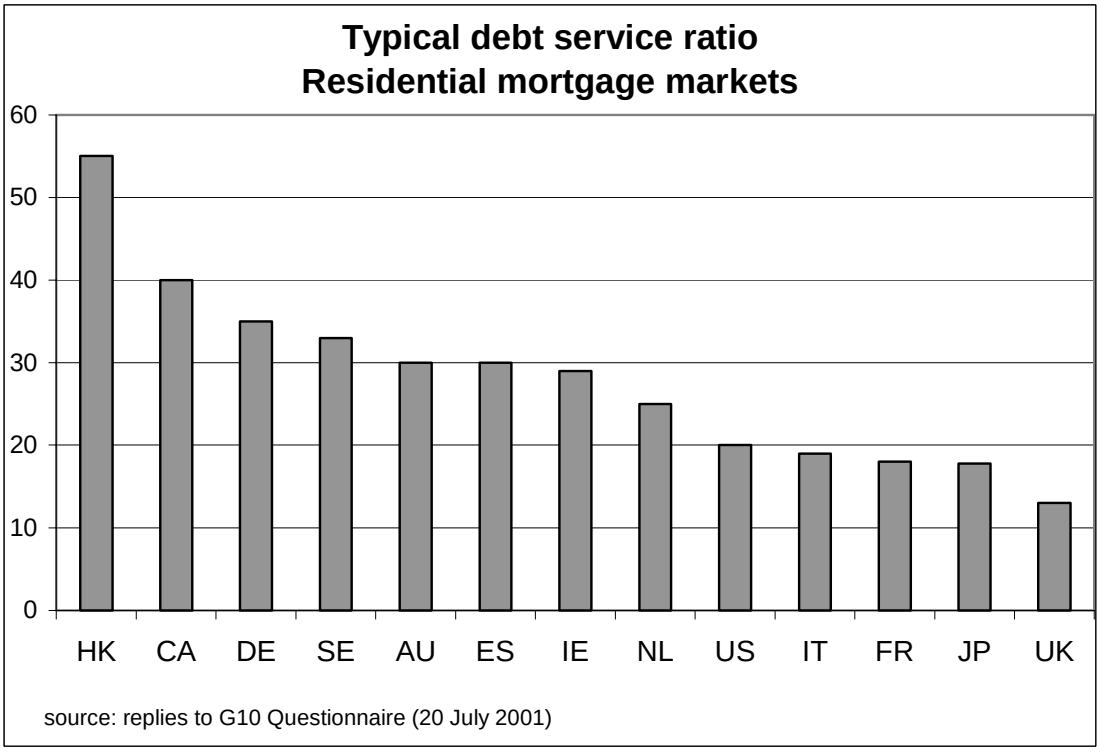


Source: replies to G10 questionnaire (20 July 2001).

Typical term of mortgages (in years)



Source: replies to G10 questionnaire (20 July 2001).



	Valuation of mortgaged assets			
	Residential mortgage market		Non-residential mortgage market	
	Valuation method (*)	Restrictions on valuation	Valuation method(*)	Restrictions on valuation
AU	Open market	Regulatory	Open market	Regulatory
BE	Mixed	None	Mixed	None
CA	Open market	None	Open market	None
FR	Open market	Regulatory	Open market	Regulatory
DE	Mixed	Legislative and Regulatory	Mortgage	Legislative and Regulatory
HK	Open market	None	Open market	None
IE	Open market	None	(n.a.)	(n.a.)
IT	Open market	None	Mixed	None
JP	(n.a.)	None	(n.a.)	None
NL	Open market	None	Open market	None
ES	Mixed	Legislative	(n.a.)	(n.a.)
SE	Open market	None	Open market	None
CH	Mortgage	None	Mortgage	None
UK	Open market	None	Open market	None
US	Open market	None	Open market	None

(*) Open market value refers to value of the asset as exchanged in arms length transactions between willing buyers and sellers. Mortgage lending value is based on arms length transactions but will reflect realisable value of the asset, i.e., it will be the open market value adjusted by the mortgage lender for the value that could be realised over the longer term.

Specific points with respect to valuation restrictions (also see complete set of replies)

AU Regulation is aimed to eliminate any possibility for improved market conditions to be factored into the valuation.

FR Valuations shall be reviewed in the framework of the risk measurement system to which land mortgage credit institutions are subject under the terms of Regulation 97-02.

DE Based on German Mortgage Act and Statement of Principles on the Mortgage Value of Realty by the Association of German Mortgage Banks.

ES Valuation must be carried out by specialised appraisal companies registered at and supervised by the Banco de España. They should have the appropriate internal controls and fulfil other requirements in order to provide protection to their customers.

Source: replies to G10 Questionnaire (20 July 2001)

Restrictions on valuation and LTV ratios, in relation to LTV ratio and growth of house prices
Residential mortgage markets

	Countries	Average of LTV ratios	Av. growth of house prices (2000)
Restrictions on LTV ratios and valuation	AU, FR, DE, ES	71	4,6
Restrictions on LTV ratios only	CA, HK, IE, IT, UK, US	75	6,1
No restrictions	BE, NL, SE, CH	82	7,0

Source: replies to G10 Questionnaire (20 July 2001)

Residential mortgages: averaging and other restrictions applied to income of borrower

	Averaging applied to income	No averaging	Unknown
Based on taxed income only	DE (3 years)	JP	
Capital gains are excluded	AU (1 year)		FR
Based on regular income only		CA	ES
Restrictions on second and irregular income		IE	
Unrealised capital gains are excluded		IT	
Based on current income only		HK	
No restrictions		UK	NL
Unknown			BE, CH, SE, US

Source: replies to G10 Questionnaire (20 July 2001)

Typical and maximum Loan-to-Value ratios		
Residential mortgage market		
	Typical LTV ratio (currently extended mortgages)	Limitations to LTV ratio
AU	65%	80%; or 100% if insured
BE	83%	None
CA	78%	75%; or 95% if insured
FR	75%	(n.a.)
DE	65%	Mortgage banks: 60%
HK	65%	70%
IE	66%	Only for MBS: 80%
IT	90%	80%; or 100% if guaranteed
JP	(n.a.)	None
NL	100%	None
ES	80%	(n.a.)
SE	77%	None
CH	66%	None
UK	70%	Building societies only
US	78%	90% if not guaranteed

Source: replies to G10 Questionnaire (20 July 2001)

Regulation of margin accounts

	a) Do (broker-dealer) margin accounts exist? b) Are these provided by financial institutions or brokers? c) Are there regulations with respect to the extent of debit balances at margin accounts?	Customer and broker requirements for opening margin accounts.
AU	a) Yes b) Provided by financial institutions (56% of market value) and brokers (44% of market value) c) No	- Brokers´ requirements: Loan-to-Valuation ratio is set between 50%-70%, depending on the size, quality and liquidity of the underlying securities. - Customer must satisfy identification check.
CA	a) Yes b) Provided by investment dealers and brokers. c) Margin limits from 50% to 70% of value of underlying shares.	- Customer must review and sign the margin agreement which explains the terms and conditions of the margin account. - Customer will undergo a credit check. - Investment dealer will provide a periodic disclosures informing the customer about his account.
FR	a) Yes b) Provided by clearing house to its members c) Yes, (Regulation 95-02, Annex IV)	(na)
DE	a) Yes, between financial institutions and brokers. b) Provided by financial institutions and brokers. c) No	(na)
HK	a) Yes b) Provided by authorised institutions and registered brokers c) Yes, based on risk-adjusted regulatory capital requirements.	The margin client agreement should at least contain the identity of the client; description of the services to be available; any relevant risk disclosure statements; specification of the margin requirements, interest charges, margin calls and circumstances under which the position may be closed without client´s consent. Registered brokers need to have objective proof of net income or net worth of a prospective client.
IE	a) No b) No c) No	
IT	a) Yes, with respect to derivatives. b) Provided by clearing house to its members. c) Yes, initial-, variation- and a delivery margins exist.	Specific requirements apply
JP	a) Yes b) Provided by securities companies and specialised financial institutions c) No specific regulation	No legal requirements
NL	a) Yes b) Provided by clearing house to tis members c) Yes, debit balance is not possible	In case of Euronext, clearing members offering margin accounts to members must use the clearing house´s risk management method.
ES	a) Yes, for derivative markets. b) Provided to members of derivative clearing house c) (n.a.)	(na)
SE	a) Yes, b) Provided by members of Stockholmsborsen or by custodian banks to financial institutions c) No specific regulation, collateral requirements exist in case of debit balance.	Specific agreements must be made.
UK	a) Yes b) Provided by financial institutions and brokers. c) Regulations on customer borrowing and margin requirement are outlined in SFA.	Please see chapter 5 of the SFA Rules, rule 5.23 – Customer Agreement. These will be replaced by the Conduct of Business Sourcebook.
US	a) Yes b) Provided by financial institutions and brokers. c) Yes, debit balances cannot exceed 50% of market value or the percentage set by the regulatory authority where the trade occurs.	No requirements
source: replies to G10 Questionnaire (20 July 2001)		

Tax Treatment of Dividends and Capital Gains

	Type of Corporate Tax System[1]	Taxation of dividends	Taxation of capital gains (top personal rate of taxation) [2]
AU	Full imputation.	Taxed as ordinary income with a 36% dividend imputation credit for company tax paid, which is creditable against ordinary income tax liability.	Treated as ordinary income. Treated as ordinary income. The top personal rate is 48.5%, companies are taxed at 30%, and complying superannuation funds at 15%. Individuals and trusts are only taxed on half their capital gains, and complying super-annuation funds on 2/3 of their capital gains. There is no capital gains tax on assets held prior to 1985.
BE	Classical.	25% or 15% withholding tax that can be final, at taxpayer's option. The 15% tax rate is applied i.a. to dividends from UCITs or publicly quoted shares issued after 1994.	Rate:0%. Capital gains on securities' holdings realised by individuals are in principle not taxable.
CA	Partial imputation.	Dividends received from taxable Canadian corporation are "grossed-up" by a factor of one-quarter and included in income. A tax credit equal to 13.34% of the grossed-up amount is then provided.	Rate: 54.1%. Treated as ordinary income. Capital gains income includes 50% of capital gains, net of capital losses.
FR	Full imputation.	Taxed as ordinary income with a 33.33% withholding tax that is always creditable against ordinary income tax liability (see also comments under "Additional remarks" at the end of this section).	Rate: 28%. In all cases, capital gains on securities are taxed at a flat rate of 26%. This comprises the basic rate of 16% plus social surcharges (CSG, CRDS, and Social Levy). (See also comments under "Additional remarks" at the end of this section.)
DE	Up to 2002: Split rate with full imputation. From 2002: Single rate without imputation.	Up to 2002: Taxed as ordinary income with 49.15% creditable withholding tax. From 2002: Shareholder relief procedure (Halbeinkünfteverfahren), corporate taxes not creditable, taxation of half of the payout with marginal income tax rate.	Capital gains realised through private transactions of resident individuals are not subject to income taxation if holding period of shares exceeded 12 months. If holding period is below 12 months, capital gains are taxed as ordinary income. Top marginal income tax rate 2001: 48.5%.
HK	Classical.	Dividends are exempt.	Capital gains are exempt.
IE	Classical.	Dividend withholding tax - the standard tax rate (20%) is withheld from all Irish dividend payouts. If an individual is not taxable a refund can be claimed. Individual is responsible for paying extra marginal rate top-up (ie 22%) if applicable.	A 20% capital gains tax rate applies to most assets (foreign assurance policies and offshore funds are charged at 40%). The top personal rate of taxation is 42%.

[1] A classical system does not give shareholders credit for corporate taxes paid on dividend distribution; a full imputation system gives the shareholder a full tax credit for corporate taxes paid on a dividend distribution (i.e., it estimates double taxation of dividends); partial credit systems retain some double taxation of dividends; split rate systems impose different corporate tax rates on retained earnings than on distributed earnings (which may also be given full or partial imputation).

[2] These rates apply to capital gains that arise from the disposal of securities, excluding speculative (or short holding periods) transactions, disposal of substantial interest holdings, or to gains realised in the course of a regular business activity.

	Type of Corporate Tax System[1]	Taxation of dividends	Taxation of capital gains (top personal rate of taxation) [2]
IT	Full imputation	Income tax (rates from 18–45%) with full credit imputation system or 12.5% final withholding tax. On dividends from substantial share-holdings only income tax applies.	Rate: 12.5%. Net capital gains on shares and other securities are subject to a substitute tax (at 12.5% rate) which replaces the individual income tax. For gains on substantial shareholdings this rate is 27%.
JP	Classical with partial adjustment	Depending on amount of dividend paid by a single company; ordinary income with 20% creditable withholding tax; final withholding tax of 35% or 20% creditable withholding tax.	For listed companies a central rate of 15% augmented by a local rate of 5% applies. Alternatively, if the sale of the asset is trusted to a securities company, a separate withholding tax applies. The national rate of 20% can be applied to 5% of proceeds.
NL	Classical	As from 2001 onwards, savings and investments are taxed at a rate of 1.2% (composed of an implied return of 4% and a tax rate on that of 30%). Dividends are subject to a 25% withholding tax, which is fully creditable against the aforementioned tax on savings and investments.	Capital gains realised in the course of a regular business activity are taxed according to income tax rates (see Table B.1) or by corporate tax, depending on the legal status. Capital gains from 'substantial interest holdings' are taxed at a rate of 25%. Capital gains realised due to the disposal of securities are exempted.
ES	Partial deduction of dividends paid	Dividends are taxed as unearned income at the marginal rate and with a withholding tax of 18%. There is a deduction for double taxation of dividends for individuals. That is, the 140% of the dividend is treated as income and there is a deduction of 40% from personal income tax payable.	Capital gains made over a period of less than one year are taxed at the marginal rate (0–48%) while those made over more than one year are taxed at the fixed rate of 18%.
SE	Classical	Taxed as capital income (30%).	Rate: 30%. In general, all capital gains realised by an individual are included in the category income from capital. This is taxed separately at a flat rate of 30% nationally (no municipal taxes apply).
CH	Classical	Treated as ordinary income: 35% creditable withholding tax.	Rate: 0%. Capital gains are exempt.
UK	The UK system now falls somewhere between a classical and an imputation system, which could perhaps be described as a type of shareholder relief scheme.[3]	Taxed as ordinary income, grossed up by a dividend tax credit of 10%. This is creditable against the tax due on dividend income, currently charged at rates of 10% (for basic and lower rate taxpayers) and 32.5% for higher rate taxpayers.	Rate: 12–40%. Capital gains are charged at varying rates according to the holding period before sale of the security and the individual's marginal tax rate on savings income. An annual tax-free allowance is granted at £7,200 for 2000–01.
US	Classical	Taxed as ordinary gross income.	Rate: 20%. Beginning 1998, the highest capital gains rate is generally 20%.

[3] UK: Since 1999, tax rates paid on dividend income have been lowered (to 10 and 32.5%, compared to 20 and 40% previously). The dividend tax credit has also fallen, from 20–10% in 1999, leaving taxpaying shareholders largely unaffected by the change. At the same time, the dividend tax credit became non-refundable to non-taxpayers, although dividends paid into tax-exempt equity savings vehicles ('Individual Savings Accounts') receive payment of the credit for five years (from 1999). Pension funds and other tax-exempt corporate shareholders, such as the pension business of insurance companies, had payment of the credit withdrawn earlier, in July 1997. This type of system could be categorised in several ways. It could be described as a classical system with reduced rates of tax on dividend income, or a shareholder relief scheme, but removing the refundable aspect of the dividend tax credit makes it a partial imputation system only for tax-paying shareholders, not for all shareholders. But if the French and Canadian systems do not refund the dividend credit, and are still described as imputation systems in this table, the UK can also be described as such.

Loan-to-value ratios and capital adequacy standards

	Linking loan-to-value ratios and capital adequacy standards
AU	Residential: 50% risk weight subject to conditions, including insurance above an 80% LTV ratio. Commercial: None For capital adequacy purposes, a loan for housing or other purposes to an individual borrower which is fully secured by registered mortgage over a residential property (whether or not the property is owned by the borrower) is assigned a concessional risk weight of 50% subject to satisfying the criteria set out below. **Lending criteria** 1. An ADI must at all times have a clear and unequivocal access to the mortgaged residential property in the event of default by the borrower. 2. An ADI must have been directly involved in making credit assessments of individual borrowers, including the valuations of the associated residential properties secured by mortgage. 3. Where security is provided by third parties (ie parties other than the specific borrower), an ADI should ensure that those parties understand fully the consequences of default on the loans and their legal obligations. Loans covered by security provided by third parties, where the relevant mortgage is unenforceable under the Consumer Credit Code, are risk-weighted at 100% in the absence of any eligible collateral and guarantees. 4. Loans for purposes other than housing must be fully secured against mortgages over *existing* residential property(ies) to receive a 50% risk weight. **Loan-to-value ratio** 5. The ratio of the outstanding amount of the loan to the value of the mortgaged residential property securing the loan must not exceed 80% unless the loan is 100% mortgage insured through an acceptable lenders mortgage insurer (LMI). 6. The "outstanding amount" of the loan is calculated as the balance of all claims on the borrower that is secured against the mortgaged residential property. 7. Where the loan is secured against a second mortgage, the outstanding amount of the loan is calculated as the sum of all claims on the borrower secured by both the first and second mortgages over the same residential property for the purpose of assessing the loan to valuation ratio. **Mortgage insurance** 9. "100% mortgage insurance" includes cover for realised losses with respect to the full value of an outstanding loan balance. To qualify as mortgage insured by an acceptable LMI, the policy covering the loan must be taken out with an LMI that has a rating the equivalent of "A" or higher by a credit ratings agency and is subject to supervision by an approved insurance regulator. **Second mortgages** 14. To qualify for a 50% risk weight, any loans secured by a second mortgage over residential property must, in addition to the requirements of loan to valuation ratio set out above, satisfy the following conditions: (a) the first mortgage must not be able to be extended without being subordinated to the second mortgage; (b) an ADI must obtain a written consent of the first mortgagee for the second mortgage and confirm the maximum outstanding amount of the loan secured by the first mortgage (including maximum drawdown or limit of facility) for loan to valuation ratio purposes; and (c) an ADI must ensure that its interest as second mortgagee is noted on the title.
BE	Residential: 50% risk weight subject to condition that the valuation of collateral does not exceed the prudently estimated pledge value. Commercial: 50% subject to the LTV ratio not exceeding 50% of open market value and 60% of the mortgage lending values.
CA	Residential: 50% risk weight subject to maximum 75% LTV ratio but 0% if CMHC insured. Commercial: None. These apply to all federal and provincial deposit-taking institutions.
DE	Residential: 50% risk weight for first mortgages, which have a maximum LTV ratio of 60%. Commercial: 50% risk weight for first mortgages, which have a maximum LTV ratio of 60% (currently EU regulation only).
FR	None.

	Linking loan-to-value ratios and capital adequacy standards
HK	Residential: since adoption of the Basel Capital Accord on 31 December 1989: 50% risk weight for loans secured by a residential mortgage and securities backed by residential mortgage and participations in residential mortgages. Maximum LTV ratio of 90% for the relevant residential mortgage. (1) Residential mortgage means a mortgage under which: the borrower is an individual person; the principal sum does not exceed 90% of the purchase price or the market value (whichever is the lower) of the property at the time the mortgage was approved; the debt is secured by a first legal charge on the property; and the property secured by the charge is used as the borrower's residence or as a residence by a tenant of the borrower. (2) 50% risk weight for securities backed by residential mortgage and participations in residential mortgages provided that the holders of such securities will not absorb more than their pro-rata share of losses in the event of arrears or default on payment of interest on, or principal of, the underlying mortgage loans. Commercial: no linkage between LTV ratio and risk weight. Note: The information given is only applicable to authorised institutions, which are supervised by the HKMA.
IE	na
IT	**1. General provisions (1993 Banking Law, Credit Committee Resolution of 22 April 1995 and Bank of Italy Supervisory Instructions for banks)** Real-estate lending involve the granting by banks of medium and long-term loans secured by mortgages on property. The maximum amount of a real estate loan is 80% of the value of the property mortgaged or of the cost of the work to be done on the property. This ceiling may be raised to 100% where supplementary guarantees are provided (eligible supplementary guarantees consist of guarantees issued by public guarantee funds or by loan-guarantee consortia and cooperatives, assignments of claims on the government and collateral in the form of government securities). The law empowers the Bank of Italy to indicate other types of supplementary guarantee. Where a property is already encumbered, the maximum amount of a real estate loan is calculated including the remaining principal of the previous loan. The rules of real-estate lending also apply to public works and agricultural loans where the latter are secured by mortgages. **2. Prudential rules (Bank of Italy Supervisory Instructions for banks)** The prudential rules on mortgage loans conform with the Basel rules and the Community directives concerning a solvency ratio for banks. **3. Mortgage loans on residential property** Mortgage loans used for the purchase of residential property may be subject to the more favourable weight of 50% (rather than 100%) provided that: the borrower is a natural person and does not contract the loan in connection with a business or self-employment; the property is used or leased out by the borrower; the amount of the loan at the time the contract is signed, added to the remaining principal of any previous mortgage loans, does not exceed the permissible percentage in relation to the value of the property; the loans are not classified as bad debts or substandard loans. **4. Mortgage loans on non-residential property** Loans totally secured by mortgages on non-residential property (offices or commercial premises) situated in Italy may be weighted at 50% for a portion of the loan equal to up to 50% of the property's market value or up to the lesser between 50% of the property's market value and 60% of the mortgage lending value. Market value is defined as the price at which the property could be sold on the valuation date by means of a private contract between an unrelated seller and buyer, assuming that the property is publicly offered on the market and that market conditions permit it to be sold within the normal period of time necessary for negotiating the sale, taking account of the nature of the property. Mortgage lending value is defined as the value of the property determined by an appraiser on the basis of a prudent assessment of the property's future negotiability. The property's market value or the mortgage lending value must be calculated by independent experts; the valuation must be repeated periodically (1–3 years). The excess portion of the loan is weighed at 100%. The 50% risk weight may be applied provided that the loan is not classified as a bad debt or substandard loan; the property is used or leased out by the borrower. In the case of mortgage loans on non-residential property situated in a foreign country, the 50% risk weight may be used provided that the country is a member of the European Union, the competent supervisory authorities permit such weighting and the specific conditions established by the regulations.
JP	None. Mortgage loans provided to those who purchase residential property may be subject to 50% risk weight provided that: (1) The property is for residential purposes (i.e. either used by owners themselves or leased by them), and loans are fully secured by a mortgage. (2) In principle, a first mortgage is granted.

	Linking loan-to-value ratios and capital adequacy standards
	100% risk weight is applied to loans to those who conduct business of housing construction or land development in a speculative manner, whether or not the above conditions are satisfied. The above standard follows the Notification of Capital Adequacy Standards based on Article 14-2 of the Banking Law.
NL	Residential: 0% risk weight for mortgages guaranteed by government (*Nationale Hypotheek Garantie*); 50% risk weight for that part of the loan up to 75% LTV ratio. Commercial: None.
ES	Residential: 50% risk weight for first mortgages fulfilling the requirements laid down in the Mortgage Law. Commercial: 100% risk weight.
SE	Residential: 50% risk weight as long as loan does not exceed the assessed collateral value. Commercial: No reduction for properties in Sweden (but given when collateral is located in countries that allow this reduction for their own banks).
CH	Residential properties in OECD countries up to two thirds of their market value: 50% risk weight. Agricultural properties, in so far as they are inscribed in the Swiss Land register as such, up to two thirds of their market value: 50% risk weight. Residential properties in OECD countries in excess of two thirds of their market value: 75% risk weight. Construction land, office and commercial properties and multi-functional industrial properties in OECD countries up to one half of their market value: 75% risk weight. Large commercial and industrial properties in OECD countries up to one third of their market value: 75% risk weight. Other receivables secured directly or indirectly by mortgage: 100% risk weight.
UK	Residential: (for building societies only) 60%, rather than 50%, risk weight for mortgages with an LTV ratio in excess of 90%.
US	50% risk weight is assigned to residential loans with LTV ≤ 90%, 100% risk weight is assigned otherwise. 100% risk weight is assigned to commercial real estate loans.

Turbulence in Asset Markets:

The Role of Micro Policies

INTEGRAL QUESTIONNAIRE RESULTS

September 2002

For presentation purposes, original responses have in some cases been edited. For the same reason, part of the information received is presented in footnotes.

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Section A: Regulatory policies

Table A.1: Residential mortgage markets - general features

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
AU	Banks: 80% Mortgage originators: 13% Credit unions and building societies: 7%	Fixed rate: 18% Variable rate: 82%	25	3 years	Approx 65%	
BE[1]	Market share based on the number of contracts in 2000: Large credit institutions: 64%; Other credit institutions: 21%; Other financial institutions: 9%; Insurance companies: 3%; Mortgage companies: 3%.	Unconditionally fixed: 57% Variable with initial fixed rate period of: 1–3 years: 12% 3–5 years: 4% 5–10 years: 10% 10 years and more: 16%	20	10 years (guesstimate)	80–85%	
CA	Commercial banks: 62% Cooperatives: 13% Life insurance: 4% Other (including securitisations): 21%	Fixed rate: 95% Floating rate: 5%	25	• Typical distribution of new mortgages appears to be 50:50 high ratio (insured) and conventional. • About 75% of new borrowers chose 5-year • Of renewing borrowers, typical distribution is: 1 year or less, 50%; 2-4 years, 25%; 5 years, 25%. Some banks currently report	Insured: 90% Conventional: 60–70%	

[1] Notes with respect to interest rate adjustments:

- The legal framework for mortgage loans with variable rates was created by the revision of the mortgage loan legislation in 1992 (previously, variable rates were not allowed by the legislator). However, by law, the minimum period for which a mortgage rate must be fixed is one year. Variable mortgage rate contracts are indexed to "reference" rates.
- The share of fixed and variable rate mortgages in new loans is very cyclical (depending primarily on the evolution of the long term interest rate): at the beginning of 1997 for example, fixed rate contracts - ie with the interest rate fixed for the whole duration of the loan - represented less than 20% of new mortgage loans. Two years later, their share of the total had increased to over 80%.

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
				more 5-year than normal.		
FR[2]	Mutual and cooperative banks: 54.7% Commercial banks: 30.2% Finance companies: 14.5% Specialised finance institutions: 0.6%	Fixed rate: 60% Variable rate: 40%	15		70–80%	
DE	Mortgage banks: 15% Savings banks: 27% Cooperative and mutual credit banks: 15% Commercial (credit) banks: 23% Others: 20%	Fixed rate	10	10	70%, 60% for mortgage bonds	Aggregate portfolio LTV of mortgage banks cannot exceed about 80%; loans of higher order are restricted to 20% of port-folio (Mort-gage Bank Act Sec 5.2)
HK	Mainly authorised institutions	Variable rate: 98%; Fixed rate: 2%	18–20	Full term of the mortgage	60–70%	This is only applicable to authorised institutions, supervised by the HKMA
IE	Building societies: 23% Commercial banks: 77%[3]	Initial fixed-period rate: 46.4% Variable rate: 53.6%[4]	20[5]	1–5 years	66%[6]	For residential mortgages, building societies and commercial banks are not separated

[2] Based on year 2000 data. Source: Banking Commission.

[3] Building societies have been demutualised over the last 10 years, leading to a drop in their market share (1991: 61%, 1996: 56%).

[4] The share of fixed rate mortgages rose from 55.1% in 1996 to 68.9% in 1998, before falling back in 2000.

[5] First-time buyers in particular may have accepted longer terms in order to secure larger mortgages.

[6] The average value of approved loans relative to the average house price, for new houses, is used to calculate an up-to-date LTV figure, which peaked at 73.3% in 1995.

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
IT	Commercial banks: 82%; Branches of foreign banks: 1%; Cooperative and mutual banks: 17%[7]	Initial fixed-period rate 27% Variable rate 73%[8]	15[9]	na	See Table A.6 for details	
JP	For new mortgages granted during FY 2000: Public financial institutions: 39%; Private financial institutions: 61%. For mortgages existing at the end of FY 2000: Public financial institutions: 44% ; Private financial institutions: 56%	For mortgages existing at the end of FY 1999: Fixed rate: 9%; Initial fixed-period rate: 30% of which: 3-year: 5% 5-year: 14% 10-year: 9%. Variable rate: 61% (private fin. institutions)	25–35 (Housing loan corp)	See 'Typical method of interest rate adjustments' in this table for details		
NL	Commercial banks: 79.5% Insurance corporations and pension funds: 15.4% Building societies and investment institutions: 5.1% (in 2000)	Initial fixed-period rate: 95% Fixed rate: 5%	30	10	75–125%	
ES[10]	Savings banks: 53% Commercial banks: 39% Others: 8%	Initial fixed-period rate 15% Variable rate 85%	15		80%	

[7] Before 1995 only special credit institutions were allowed to grant long-term loans. At the end of 1995, 86% of residential mortgages were granted by commercial banks, 0.4% by branches of foreign banks and 13% by cooperative mutual banks.

[8] At the end of 1990, 52% of residential and non-residential mortgages initially had a fixed-period rate. At the end of 1995, this share for residential mortgages only was 37%.

[9] Data on the typical term of a mortgage are from the 1998 Bank of Italy Survey on Household Income and Wealth. At the end of 2000, 96% of residential mortgages had a term longer than 5 years and 2% a term between one and five years.

[10] Answers refer to mortgage markets as regulated by the Mortgage Law (Law 2/1981). Mortgage loans under that law make up around two thirds of all mortgage loans.

Only residential loans under the Mortgage Law benefit from a 50% capital adequacy weighting, and if they are considered "past due" they have a longer period for the endowment of provisions.

Two relevant facts can be underlined in the field of mortgage markets during the last decade. On the one hand, a law passed in 1994 aimed to bring mortgage rates in line with the substantial reduction they have registered in other markets. The law tried to promote greater competition by making the substitution of lenders easier and cheaper, usually involving a change from fixed to variable rate.

(continued)

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
SE[11]	Mortgage companies: 75% Banks: 20% Others: 5%	Variable 50%, Initial fixed 50% Variable 100% Unknown	<30 <15 Unknown	For initial fixed, 3 years; otherwise, not applicable	75% 80-90% Unknown	Most mortgage companies are bank-owned

The second fact was a legal framework for the securitisation of mortgage assets. Initially, only mortgage-backed certificates (participaciones hipotecarias) under the Mortgage Law could be securitised, but from 1993 all kinds of mortgage assets became eligible for securitisation

The proportion of fixed and variable rates is an estimate. A survey carried out in 1998 among a sample of 22 entities representing 65% of mortgage loan activity resulted in a proportion of variable rate loans of 75%. Since then most loans are thought to have been granted at variable rates, so that our estimate for variable rates is now 85%.

The initial term for residential mortgage loans is estimated at around 15 years. However, the effective term is shorter because of the provisions contemplated in the Spanish legislation for the early repayment of mortgage loans.

The Mortgage Law sets a maximum LTV of 80% for residential mortgages and 70% for other non-residential real estate. Effective LTV for residential property is estimated at some 70%. There are no estimations for effective LTV in commercial property, although it is thought to be well under the maximum of 70%.

[11] The mortgage market in Sweden has two types of major lenders, mortgage companies and banks (mainly commercial banks; traditional savings banks are a small group today). Mortgage companies are essentially capital market funded, while banks have the usual mix of deposits and wholesale funding. There is a broad division of labour between the mortgage companies and the banks in that mortgage companies essentially restrict themselves to loans with an LTV ratio not above 70–75%. A borrower who wants to borrow more will then typically get two loans, one from a mortgage company and one from a bank or other lender on top of that. Total LTV can thus reach 80–90%. In some cases, for example concerning second homes, a bank can decide to provide the entire loan without recourse to a mortgage company.

This division of labour is made all the easier by the fact that four out of the five big mortgage companies belong to the four big Swedish banking groups. The credit decisions are normally centralised in those groups, so that a complete "package" can be offered if the borrower requires that. The result is that the mortgage market is quite concentrated (as is the credit market in general). The four largest banking groups between them have some 85% of the entire mortgage market.

It is possible in Sweden to obtain (buy) a state guarantee for certain parts of the financing of new housing and there is also a certain volume of municipal guarantees, primarily for multi-family housing. Those types of loans have not been considered in the description of typical LTV ratios, as the lender's risk does not depend on the property collateral.

To avoid misunderstanding, we wish to point out that we have taken Tables A.1–A.3 to refer only to "retail" mortgages, ie mortgages for owner-occupied housing. Housing in the form of apartment blocks or groups of single-family houses owned by a property company and let to the inhabitants is for us a distinctly different market. At the same time, it is a type of collateral that for us is very different from commercial premises etc. Information on "non-retail" residential rental is thus included in Table A.4.

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
CH	Survey data for year 2000: Big banks: 35% Cantonal banks: 36% Other banks: 29%	*Three types of mortgage rates*: fixed rate; variable rate; money market linked mortgage rate.[12] *Fixed rate mortgages*: Big banks: 59%; Cantonal banks: 43%; Other: 25% *Variable rate mortgages and money market linked mortgages*: Big banks: 41%; Cantonal banks: 57%; Other: 75%.	*Fixed* rate mortgage: 1–10 years *Variable* rate mortgage: not fixed (with 3 months notice) *Money market* linked mortgage: 3 or 5 years	1–10 years	66%	
UK	Balances outstanding: Banks: 72% Building societies: 20% Other specialist mortgage lenders: 8% (Council of Mortgage Lenders, March 2001)	Type of interest by advance: Fixed up to 1 year: 5% Fixed over 1 year: 22% Variable including AR: 73% (Council of Mortgage Lenders, 1st quarter 2001)	25	For fixed rate loans 59% by number and 58% by value are due to mature in 2–5 years (Figures are taken from the CML survey at 30 June 1999. CML may conduct similar survey towards end-2001)	70% (Average from 1999 Q1 to 2001 Q1. House prices are taken at mortgage comple-tion stage)	
US	Mortgage pools: 55% Commercial banks: 19% Savings institutions: 12%	Fixed rate: 74% Initial fixed-period rate: 26%	30	30 years	77.7%	

[12] The share of mortgages under the various interest rate terms varies crucially among banks. Therefore, the following statistic summarising individual banks is an aggregate to be treated with caution.

Table A.2: Residential mortgage markets - loan-to-value ratios

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios** ***Column 4***	**Remarks/ comments**
AU	Open market value	Yes[13] [R]	Yes [R] Refer to Table A.6	Maximum of 80% without mortgage insurance and 100% with mortgage insurance	
BE	Open market value and mortgage lending value	None	None	None (only an (obvious) positive relation between LTVs and lending rates)	See link with capital adequacy standards (Table A.6)
CA	Open market value (or variant thereof)	None	Section 418 of the Bank Act establishes an upper limit loan-to-value ratio of 75% for	None other than those mentioned in the previous column	

[13] I. All assets taken as security by authorised deposit-taking institutions (ADIs) should be valued, wherever possible, at their net current market value. Market value is defined by the Australian Property Institute (API) as the estimated amount for which an asset should, on the date of valuation, exchange: (a) in an arm's length transaction; (b) between a willing buyer and willing seller; (c) after proper marketing; and (d) wherein the parties had each acted knowledgeably, prudently and without compulsion. Net current market value is arrived at after deducting all disposal costs (including taxation liabilities) from the market value. II. The concept of "proper marketing" carries the implication that the property being valued has been exposed to the market for a reasonable period of time. ADIs should view this period as up to 12 months, although a longer period (up to a maximum of 24 months) may be adopted for specialised or unusual properties when professional valuers advise that this is appropriate. For the purposes of valuation, market conditions, and thus asset values, are assumed to remain static over the marketing period. To reinforce this point, marketing periods are assumed to have elapsed at the date of valuation (ie should be retrospective), thereby eliminating any possibility for improved market conditions to be factored into the valuations. Property assets should generally be valued on the basis of existing use. Any higher value related to an alternative use or "element-of-hope" value arising from prospects of redevelopment, and any possible increase in value consequent upon special investment or finance transactions, should be disregarded.

[14] Regulatory or legislative authority of loan-to-value ratios for insurance companies: Section 490 of the Insurance Companies Act establishes an upper limit loan-to-value ratio of 75% unless: the mortgage is guaranteed under the National Housing Act or any other Act of Parliament under which a different limit is established; or if the amount of the loan which exceeds the 75% limit is guaranteed or insured by a government agency or an approved (by the Superintendent) private insurer. Mortgages insured by Central Mortgage & Housing Corporation (CMHC) under the National Housing Act - all approved lenders: The maximum loan-to-value ratio for a CMHC-insured mortgage is generally 95% (92.5% for a two-unit dwelling). Mortgages Insured by GE Capital Mortgage Insurance Canada (presently the only approved private mortgage insurer) - all

(continued)

	Valuation method *Column 1*	Regulatory[R] or legislative [L] restrictions on valuation *Column 2*	Regulatory[R] or legislative [L] authority on loan-to-value ratio *Column 3*	Direct and indirect limits on LTV ratios *Column 4*	Remarks/ comments
			banks unless: [14] • the mortgage is guaranteed under the Nat. Housing Act or any other Act of Parliament under which a different limit is established; • or if the amount of the loan which exceeds 75% is guaranteed or insured by a government agency or an approved private insurer; • the bank acquires from an entity securities issued by the entity that are secured on any residential property or the making of a loan by the bank against the issue of such securities		
FR	Open market value[15] [16]	Yes [R] Regulation 99-10 of July 1999, relating to mortgage credit institutions: Articles 2* and 3**	Yes [L] Arts L 515-29 and L 515-30 of the Code monétaire et financier (the Banking		

approved lenders: the maximum loan-to-value ratio for a GE Capital-insured mortgage is 95% and 92.5% for a two-unit dwelling, and 90% for a three- and four-unit building.

[15] Article 2 of Regulation 99-10 of 9 July 1999, relating to mortgage credit institutions: "Valuations shall be made on the basis of the lasting, long-term characteristics of the building, normal market and local conditions, the current use of the asset and other uses to which it could be put. Such mortgage value shall be determined clearly and transparently in writing and may not exceed the market value. By way of an exception, the valuation may be based on the total cost of the operation excluding expenses and taxes, for assets where the amount of financed works does not exceed 10% of such cost and where such cost is less than:
A - €300,000 in the case of housing completed no more than five years before the date at which the loan was granted or in the case of a building for business use;
B - €500,000 in the case of housing completed no less than five years before the date at which the loan was granted."

[16] Article 3 of Regulation 99-10: "Building valuations shall be reviewed in the framework of the risk measurement system to which land mortgage credit institutions are subject under the terms of Regulation 97-02. Such review shall be conducted annually on an individual basis in the case of buildings for business use for which the purchase price or most recent estimated value is greater than €300,000. It shall be conducted every three years on an individual basis in the case of buildings for business use for which the purchase price or most recent estimated value is less than €300,000. The value of other buildings and buildings for professional use for which the purchase price or most recent estimated value is less than €300,000 shall be reviewed annually using a statistical method."

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios** ***Column 4***	**Remarks/ comments**
			Commission ensures the control of the mortgage credit institutions and rules on LTV ratio); Act 99-532 of 25 June 1999 on savings and financial security - Title IV - Article 94-1; Decree 99-710 of 3 Aug 1999, relating to the reform of mortgage credit institutions		
DE	Mortgage lending value, open market value, if certified by a surveyor, should be taken into account. Adjustment factor 20–25%.	Yes [L] Section 12 German Mortgage Act (GMA): the value of the property may not exceed the prudently assessed market value. Only permanent characteristics of the property and the yield, which any tenant can sustainably ensure by proper management shall be taken into account Yes [R] October 1996: "Statement of principles on the mortgage value of realty" by the Association of German Mortgage Banks defines in detail the philosophy of mortgage value and the differences to the current value	Yes [R] Regulatory body is the Federal Banking Supervisory Office. HypZert GmbH is the German banking industry's certifying body for real estate surveyors according to ISO 17024	Sec 11 GMA: The loan may not exceed three fifths of the property's value. Up to this limit, real estate loans can serve as cover for "Pfandbriefe" and receive a preferential regulatory risk weight of 50%. Each bank sets up valuation instructions regarding the value determination, value criteria, classification of property, guidelines for the capitalisation rate, measuring management costs, building costs. This must be in line with the GMA	Maximum LTV ratios are set by each individual bank, as are the interest rates for the different tranches (up to and above 60%) depending on the refinancing source

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios** ***Column 4***	**Remarks/ comments**
HK	Open market value	None	Yes Market practice endorsed by regulator (see also next column)[17]	60–70% as a general practice; regulatory guidelines allow 70%; Banking Ordinance's limit is 90%, usually applic-able in special situation such as staff loans	The information given is only applicable to authorised institutions, which are supervised by the HKMA
IE[18]	Open market value	None	Yes, only MBS (LTV ≤80%)		
IT	Open market value	None	Yes (see Table A.6 for details)	Direct limit on LTV ratio (see Table A.6 for details)	
JP	na	None	None	None	
NL	Open market value	None	Yes [R] Only for preferential capital adequacy weighting	None	
ES[19]	Several methods can be applied; the chosen value shall be the lowest resulting from their application.	Legislative restrictions	Legislative restrictions	Direct and indirect limits	

[17] Hong Kong SAR has the maximum allowable loan-to-value ratio.

[18] Valuation practices in the Irish mortgage lending market are quite homogeneous and there is no reason to provide separate tables for different lender types.
A recent legal development is the presentation of Pfandbrief-type legislation to parliament. The bill under discussion would give the central bank the power to determine the method of valuation for mortgages and would restrict the eligibility of mortgage loans for inclusion in asset-backed securities to those with LTVs up to 60%. However, loans with LTVs up to 80% may be included, with the excess over 60% not being recognised for collateral purposes.

[19] The valuation of real estate backing mortgage loans must be carried out by specialised appraisal companies registered at and supervised by the Bank of Spain. They should have the appropriate internal controls and fulfil other requirements in order to provide protection to their customers (public liability insurance, minimum capital, etc).

(continued)

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios** ***Column 4***	**Remarks/ comments**
SE	Open market value	None	None	None	Lenders are free to develop their credit policies
CH	Mortgage lending value	None	None	None	
UK	Open market value	None	Building societies: yes [R] For building societies, loans to the value of 75% of their assets must be fully secured on residential property (ie LTVs <100%) Banks: no explicit restrictions	None	
US	Open market value	No, but appraisers need to be licensed or certified, and contents of appraisal should conform to the Board's appraisal regulation	No, but for loans with LTV equal to or exceeding 90%, an institution should require appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral	None	

The valuation activity of these companies is strictly regulated by a Ministerial Order, in which several valuation methods (open market, mortgage lending, replacement cost, income capitalisation, etc) are described. Appraisal companies shall take into account the lowest value resulting from the application of the different methods.

Table A.3: Residential mortgage markets - debt service ratio and other terms

	Typical debt service ratio for individuals (mortgage and interest payments/disposable income)	Generally based on current family income (CFY), or current income of main earner (CME)	Is averaging applied to income?	Are there restrictions on the type of income that is taken into consideration?	Remarks/ comments
AU	30%, but can be as high as 60% for high-income, childless households	CFY	Yes (based on annual income)	Includes all income except capital gains	
BE		CFY			
CA	Maximum housing-related expenses/gross income ratio: 32%. Maximum total monthly debt expenses/gross income ratio: 40%. Data are not available on average debt service ratios	Based on current household income	Typically no	Typically includes only regular income	For conventional mortgages the same responses would apply as above. These responses apply to all lending institutions
FR[20]	18%	CFY		Mostly based on wages, meaning that earnings on capital are not usually considered	
DE	approx 35%	CFY	Yes, normally average of the last 3 years	Income according to the tax declaration	
HK	50–60%	Neither CFY nor CME. For the case of HK, only current income of the borrower will be counted	No	Current income will be used in assessing debt servicing ability of a borrower. No allowance will be made for any expected future income increase	The information given is only applicable to authorised institutions, which are supervised by the HKMA
IE	Fluctuating ratio (between 23 and 36% during 1990–2000): at present 29%[21]	Main income holder or joint income	No	Restrictions applied to second/spousal income. No average over time	Competition has spurred increases in LTV

[20] Source: INSEE, "Tableau de l'économie française".

[21] A representative debt service ratio can be calculated by expressing the debt service payments on a representative mortgage relative to average household disposable income.

	Typical debt service ratio for individuals (mortgage and interest payments/disposable income)	Generally based on current family income (CFY), or current income of main earner (CME)	Is averaging applied to income?	Are there restrictions on the type of income that is taken into consideration?	Remarks/ comments
IT	Mean debt service ratio: 0.1927 (std dev 0.3508); mean debt service ratio when the mortgage is subsidised by the employer, the trade association, or central or local government (about 57% of the sample): 0.1531 (std dev 0.1320)	After-tax CFY, inclusive of earnings, pensions, transfers, financial income	No	Imputed rents on real estate are included in the income measure; unrealised capital gains are not	Weighted figures based on data from the 1998 Bank of Italy Survey of Household Income and Wealth
JP	Range of debt service ratio (% share): 0%: 19.7% 1–9%: 12.7% 10–14%: 18.4% 15–19%: 21.8% 20–24%: 14.5% 25–29%: 5.6% 30–34%: 4.0% 35–39%: 1.3% 40%–: 2.1% (For individuals who built new houses for residence during 1999; those who did not take out mortgage loans are also included in the samples.)	CFY	No	Before-tax payment. Income earned by the spouse and other family members is also included	
NL	±25%	CFY	Unknown	No	
ES	30%	CFY		Only regular income is taken into consideration	
SE[22]	Probably up to 1/3 of disposable income, taking account also of other fixed obligations	CFY	Depends on the policy of the lending institution	Depends on the policy of the lending institution	A loan impact calculation is required, but the form is not regulated
CH	No data available				

[22] Ten years ago, the repayment ability of the customer as measured by income was not a central variable for the specialised mortgage institutions, where the value of the property collateral was the focus. However, since then the law has been changed to use the same language as for banks. Thus, today the credit granting process is very similar, which is underscored by the fact that four of the five major mortgage institutions are bank-owned.

	Typical debt service ratio for individuals (mortgage and interest payments/disposable income)	Generally based on current family income (CFY), or current income of main earner (CME)	Is averaging applied to income?	Are there restrictions on the type of income that is taken into consideration?	Remarks/ comments
UK	13%	Income in the month before interview is summed for all members of the household	The McClement's scale is used to allow for the different effects of household size and composition	Monthly household income is constructed using individual's income in the month before interview, monthly income from 2nd jobs and banded values of total monthly income from all sources. Some imputation methods are used. (Please see survey documen-tation for the construction of income variables at www.iser.essex.ac.uk /bhps/doc)	The BHPS is an annual panel survey which began in 1991. The panel is a nationally representative sample of around 5,500 households (13,840 individuals). Where possible, the same individuals are contacted each year
US	20%	CFY	Depends on policy of individual banks	Depends on policy of individual banks	

Table A.4: Non-residential/commercial mortgage markets – general features

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
AU	Banks: 97.6% Finance companies: 0.2% Money market corporations: 1.3% Other lenders: 0.9%	na	na	na	na	
BE[23]	Banks: 100% (100% in 1980)					
CA	Life insurance companies: 48% Commercial banks: 31% Cooperatives: 18% Non-deposit taking institutions and other institutions: 2% Independent trust and mortgage loan companies: 1%	Typical method of interest rate adjustment, depending on the individual institution; 60–75% fixed with the remaining variable rate; the fixed spread is typically set at a spread over Canada bonds on the transaction date; the variable rate tends to float over the prime rate	Typical term of mortgage; bank lending tends to be shorter, in the 3–5 year term range; insurance companies' lending tends to be somewhat longer to match their liabilities, with a typical term perhaps 10 years; amortisation periods range from 20 to 30 years, centring on 25 years	Differs little from the previous column	Typical loan-to-value ratios for a first mortgage would be in the 60–70% range; CMHC mortgage insurance is available on apartment buildings at loan to value ratios up to 85%	The responses do not vary by type of lending institution unless explicitly mentioned
FR	na	na	na	na	na	
DE	Mortgage banks: 31% Commercial (credit) banks: 26% Savings banks: 18% Cooperative banks: 8% Others: 17%	Varies depending on type of loan	Depends on type of loan, eg interim financing of real estate developer: 2 years, longer	Depends on type of loan	60% for mortgage bonds, up to 100% possible (depending on credit standing of customer,	Conditions on commercial mortgage market vary. Individual LTV and refinancing

[23] Commercial real estate lending is not limited to non-residential mortgage loans (other types of loans are used as well).

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
			term financing around 5–10 years		different interest rates apply, very often additional collateral needed)	conditions apply
HK	Mainly authorised institutions	Both floating rate and fixed rate	na	na	No specific restriction on LTV ratio but authorised institutions are required to adhere to prudent criteria	The information given is only applicable to authorised institutions, which are supervised by the HKMA
IE	Not applicable/relevant (due to the highly heterogeneous nature of the market)					
IT	Commercial: 81% Branches of foreign banks: 3% Cooperative mutual banks: 16%[24]	Initial fixed-period rate: 35% Variable rate: 65%[25]	na	na	See Table A.6 for details	
JP	na	na	na	na		
NL	Unknown	No general information available	No general information available	No general information available	No general information available	
ES	na	Mainly variable rate	Less than for residential	na	70%	See footnotes to Tables A.1 and A.2
SE[26]	Mortgage companies: 45% (90%) Banks: 45% (7%) Others: 10% (3%)	Variable (50%) or initial fixed (50%) Variable Not known	Depending on purpose and location (up to 30 years)	Not known (3 years)	Up to 75% (75%) (75%) (Not known)	Most mortgage companies are bank owned
CH	No distinction between residential and non-residential mortgage markets					

[24] Before 1995, only special credit institutions were allowed to grant long-term loans. At the end of 1995, 91% of non-residential mortgages were granted by commercial banks, 0.3% by branches of foreign banks and 9% by cooperative mutual banks.

[25] Data on the typical method of interest rate adjustment are partly estimated. At the end of 1990, 52% of residential and non-residential mortgages initially had a fixed-period rate. At the end of 1995 this share for non-residential mortgages only was 47%.

[26] Data on the residential rental mortgage market in brackets.

	Type of lender and approximate market share	Typical method of interest rate adjustment	Typical term of mortgage (years)	Average fixed rate period	Typical loan-to-value ratio	Remarks/ comments
UK[27]	Sample findings for 9 months to September 2000 show: UK lenders, excluding building societies: 37% German lenders: 32% Other international lenders: 16% Building societies: 15%	Interest rates tend to be floating (typically quoted against Libor)	Mixed response: some lenders have little preference, while others noted terms between 5 and 10 years	Interest rates tend to be floating (typically quoted against Libor)	A study of maximum LTV ratios in 2000 shows that 87% of the sample surveyed were prepared to lend at LTV ratios between 75% and 89%	
US	Commercial banks: 50% Life insurance corporations: 15% Private pools: 16%	Usually fixed rate	10	10	Depends on policy of the lender (75–85%)	

[27] For further information on columns 1, 3 and 5, see De Montfort University, "The UK commercial property lending market 2000: research findings April 2001" (ISBN 1857213289).

Table A.5: Non-residential/commercial mortgage markets – loan-to-value ratios

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios.** ***Column 4***	**Remarks/ comments**
AU	Open market value	Yes [R], see Table A.2	None	None	
BE	Open market value and mortgage lending value	None	None	None	See capital adequacy standards (Table A.6)
CA	Open market value	None	None, except for the CMHC limit on apartment buildings mentioned above	None, but normal business practice leads to the range of LTV ratios mentioned above	
FR	Open market value	Yes [R], see Table A.2	Yes [L], see Table A.2	Yes 60%	
DE	Mortgage lending value. Same methods and rules apply as for residential real estate	Same restrictions apply as for residential real estate	Same authorities responsible as for residential real estate	Same limits apply as for residential real estate	
HK	Open market value	None	Yes [R] (see next column)	No specific restriction on LTV ratio but authorised institutions are required to adhere to prudent criteria	Information given is only applicable to authorised institutions, which are supervised by the HKMA
IE	Not applicable/relevant (due to the highly heterogeneous nature of the market)				
IT	Both open market value and mortgage lending value can be used, at least for the purposes of the solvency ratio (see also Table A.6)	None	Yes, see Table A.6	The limit on the LTV ratio is direct (see Table A.6 for details)	
JP	na	na	na	None	
NL	Open market value	None	None	None	
ES	See footnote to Table A.2				
SE	Open market value	None	None	None	
CH	No distinction between residential and non-residential mortgage markets				
UK	Open market value	None	For building societies, loans to the value of 75% of their assets must	A bank risk weighting framework from the Financial	

	Valuation method ***Column 1***	**Regulatory[R] or legislative [L] restrictions on valuation** ***Column 2***	**Regulatory[R] or legislative [L] authority on loan-to-value ratio** ***Column 3***	**Direct and indirect limits on LTV ratios.** ***Column 4***	**Remarks/ comments**
			be secured on residential property. Lending to commercial property can be made from the remaining 25%; this lending can be secured or unsecured	Services Authority can be found at http://www.fsa.gov.uk/pubs/supervisor/bc03.pdf	
US	Open market value	No, but appraisers must be state certified, and the appraisal must conform to many regulations	No, but there exists a supervisory LTV limit (85%). Institutions involved in higher LTV lending should implement risk management programmes that identify, measure, monitor and control the inherent risks	None	

Table A.6: Linking loan-to-value ratios and capital adequacy standards

	Linking loan-to-value ratios and capital adequacy standards
AU	Residential: 50% risk weight subject to conditions, including insurance above an 80% LTV ratio. Commercial: none For capital adequacy purposes, a loan for housing or other purposes to an individual borrower which is fully secured by a registered mortgage on a residential property (whether or not the property is owned by the borrower) is assigned a concessional risk weight of 50% subject to satisfying the criteria set out below. **Lending criteria** 1. An authorised deposit-taking institution (ADI) must at all times have clear and unequivocal access to the mortgaged residential property in the event of default by the borrower. 2. An ADI must have been directly involved in making credit assessments of individual borrowers, including the valuations of the associated residential properties secured by mortgage. 3. Where security is provided by third parties (ie parties other than the specific borrower), an ADI should ensure that those parties understand fully the consequences of default on the loans and their legal obligations. Loans covered by security provided by third parties, where the relevant mortgage is unenforceable under the Consumer Credit Code, are risk-weighted at 100% in the absence of any eligible collateral and guarantees. 4. Loans for purposes other than housing must be fully secured against mortgages on *existing* residential property(ies) to receive a 50% risk weight. **Loan-to-value ratio** 5. The ratio of the outstanding amount of the loan to the value of the mortgaged residential property securing the loan must not exceed 80% unless the loan is 100% mortgage insured through an acceptable lenders mortgage insurer (LMI). 6. The "outstanding amount" of the loan is calculated as the balance of all claims on the borrower that is secured against the mortgaged residential property. 7. Where the loan is secured against a second mortgage, the outstanding amount of the loan is calculated as the sum of all claims on the borrower secured by both the first and second mortgages on the same residential property for the purpose of assessing the LTV ratio. **Mortgage insurance** 9. "100% mortgage insurance" includes cover for realised losses with respect to the full value of an outstanding loan balance. To qualify as a mortgage insured by an acceptable LMI, the policy covering the loan must be taken out with an LMI that has a rating equivalent to "A" or higher from a credit rating agency and is subject to supervision by an approved insurance regulator. **Second mortgages** 14. To qualify for a 50% risk weight, any loans secured by a second mortgage over residential property must, in addition to the requirements on LTVratio set out above, satisfy the following conditions: (a) the first mortgage must not be able to be extended without being subordinated to the second mortgage; (b) an ADI must obtain a written consent of the first mortgagee for the second mortgage and confirm the maximum outstanding amount of the loan secured by the first mortgage (including maximum drawdown or limit of facility) for LTV ratio purposes; and (c) an ADI must ensure that its interest as second mortgagee is noted on the title.
BE	Residential: 50% risk weight subject to condition that the valuation of collateral does not exceed the prudently estimated pledge value. Commercial: 50% subject to the LTV ratio not exceeding 50% of open market value and 60% of the mortgage lending values.
CA	Residential: 50% risk weight subject to maximum 75% LTV ratio but 0% if CMHC-insured. Commercial: none. These apply to all federal and provincial deposit-taking institutions.
FR	None
DE	Residential: 50% risk weight for first mortgages which have a maximum LTV ratio of 60%. Commercial: 50% risk weight for first mortgages which have a maximum LTV ratio of 60% (currently EU regulation only).

	Linking loan-to-value ratios and capital adequacy standards
HK	Residential: since adoption of the Basel Capital Accord on 31 December 1989, • 50% risk weight for (1) loans secured by a residential mortgage and (2) securities backed by a residential mortgage and participations in residential mortgages. Maximum LTV ratio of 90% for the relevant residential mortgage. (1) Residential mortgage means a mortgage under which: the borrower is a natural person; the principal sum does not exceed 90% of the purchase price or the market value (whichever is the lower) of the property at the time the mortgage was approved; the debt is secured by a first legal charge on the property; and the property secured by the charge is used as the borrower's residence or as a residence by a tenant of the borrower. (2) 50% risk weight for securities backed by a residential mortgage and participations in residential mortgages provided that the holders of such securities will not absorb more than their pro rata share of losses in the event of arrears or default on payment of interest on, or principal of, the underlying mortgage loans. Commercial: no linkage between LTV ratio and risk weight. Note: the information given is only applicable to authorised institutions, which are supervised by the HKMA.
IE	na
IT	**1. General provisions (1993 Banking Law, Credit Committee Resolution of 22 April 1995 and Bank of Italy supervisory rules for banks)** Real estate lending involves the granting by banks of medium- and long-term loans secured by mortgages on property. The maximum amount of a real estate loan is 80% of the value of the property mortgaged or of the cost of the work to be done on the property. This ceiling may be raised to 100% where supplementary guarantees are provided (eligible supplementary guarantees are those issued by public guarantee funds or by loan guarantee consortia and cooperatives, assignments of claims on the government and collateral in the form of government securities). The law empowers the Bank of Italy to indicate other types of supplementary guarantee. Where a property is already encumbered, the maximum amount of a real estate loan is calculated including the remaining principal of the previous loan. The rules of real estate lending also apply to public works and agricultural loans where the latter are secured by mortgages. **2. Prudential rules (Bank of Italy supervisory rules for banks)** The prudential rules on mortgage loans conform with the Basel rules and EU directives concerning a solvency ratio for banks. **3. Mortgage loans on residential property** Mortgage loans used for the purchase of residential property may be subject to the more favourable weight of 50% (rather than 100%) provided that: the borrower is a natural person and does not contract the loan in connection with a business or self-employment; the property is used or leased out by the borrower; the amount of the loan at the time the contract is signed, added to the remaining principal of any previous mortgage loans, does not exceed the permissible percentage in relation to the value of the property; the loans are not classified as bad debts or substandard loans. **4. Mortgage loans on non-residential property** Loans totally secured by mortgages on non-residential property (offices or commercial premises) situated in Italy may be weighted at 50% for a portion of the loan equal to up to 50% of the property's market value or up to the lesser of 50% of the property's market value and 60% of the mortgage lending value. Market value is defined as the price at which the property could be sold on the valuation date by means of a private contract between an unrelated seller and buyer, assuming that the property is publicly offered on the market and that market conditions permit it to be sold within the normal period of time necessary for negotiating the sale, taking account of the nature of the property. Mortgage lending value is defined as the value of the property determined by an appraiser on the basis of a

	Linking loan-to-value ratios and capital adequacy standards
	prudent assessment of the property's future negotiability. The property's market value or mortgage lending value must be calculated by independent experts; the valuation must be repeated periodically (every one to three years). The excess portion of the loan is weighed at 100%. The 50% risk weight may be applied provided that: • the loan is not classified as a bad debt or substandard loan; • the property is used or leased out by the borrower. In the case of mortgage loans on non-residential property situated in a foreign country, the 50% risk weight may be used provided that the country is a member of the European Union, the competent supervisory authorities permit such weighting and the specific conditions are established by the regulations.
JP	None. Mortgage loans provided to those who purchase residential property may be subject to a 50% risk weight provided that: • The property is for residential purposes (ie either used by owners themselves or leased by them), and loans are fully secured by a mortgage. • In principle, a first mortgage is granted. A 100% risk weight is applied to loans to those who conduct business in housing construction or land development of a speculative nature, whether or not the above conditions are satisfied. The above standard follows the Notification of Capital Adequacy Standards based on Article 14-2 of the Banking Law.
NL	Residential: 0% risk weight for guaranteed by government (NHG, *Nationale Hypotheek Garantie*); 50% risk weight for that part of the loan up to 75% LTV ratio. Commercial: none.
ES	Residential: 50% risk weight for first mortgages fulfilling the requirements laid down in the Mortgage Law. Commercial: 100% risk weight.
SE	Residential: 50% risk weight as long as loan does not exceed the assessed collateral value. Commercial: no reduction for properties in Sweden (but given when collateral is located in countries that allow this reduction for their own banks).
CH	Residential properties in OECD countries up to two thirds of their market value: 50% risk weight. Agricultural properties, in so far as they are entered as such in the Swiss Land register, up to two thirds of their market value: 50% risk weight. Residential properties in OECD countries in excess of two thirds of their market value: 75% risk weight. Construction land, office and commercial properties and multifunctional industrial properties in OECD countries up to one half of their market value: 75% risk weight. Large commercial and industrial properties in OECD countries up to one third of their market value: 75% risk weight. Other receivables secured directly or indirectly by a mortgage: 100% risk weight.
UK	Residential: (for building societies only) 60%, rather than 50%, risk weight for mortgages with an LTV ratio in excess of 90%.
US	50% risk weight is assigned to residential loans with LTV ≤ 90%, 100% risk weight is assigned otherwise. 100% risk weight is assigned to all commercial real estate loans.

Supplementary questions on the role of regulatory policies

1. With respect to different weights applicable to varying LTV ratios (Table 6), do prudential authorities provide guidelines on the nature of valuation of the collateral or on the nature of the collateral? Are there any restrictions on the conditions under which lower weights are applicable? If applicable, please provide separate answers for different types of lenders, eg banks, insurance companies, building societies, etc.

Australia

For ADIs:

General guidelines are provided for the valuation of collateral. These are contained in Guidance Note 220.2. The Note specifies that:

- All assets taken as security by ADIs should be valued, wherever possible, at their net current market value. Market value is defined by the Australian Property Institute (API) as the estimated amount for which an asset should, on the date of valuation, exchange:
    - in an arm's length transaction;
    - between a willing buyer and willing seller;
    - after proper marketing; and
    - wherein the parties had each acted knowledgeably, prudently and without compulsion.

Net current market value is arrived at after deducting all disposal costs (including taxation liabilities) from the market value.

- The concept of "proper marketing" carries the implication that the property being valued has been exposed to the market for a reasonable period of time. ADIs should view this period as up to 12 months. Market conditions are assumed to remain static.
- ADIs may adopt the valuations of suitably qualified internal appraisers or external valuers. In both cases, the personnel involved should have adequate experience in valuing the type of assets which constitute the security.
- ADIs should require valuers and appraisers to adopt the valuation standards and practices of the API, or equivalent offshore bodies. Valuation reports should be based on the standard format advocated by these bodies.

As noted in Table A.6, concessional risk weights apply only to loans secured by residential housing where, inter alia, the LTV ratio is 80% or less, or there is mortgage insurance.

Life and general insurers.

No.

Belgium

The Capital Adequacy Regulation provides a number of guidelines on the valuation of collateral (see also Table A.6) as a precondition for the recognition of collateral as a risk mitigant. As such, these rules can be interpreted as indirect prudential guidelines for the valuation of real estate. Residential real estate is only accepted as a risk mitigant (50% risk weight) to the extent that the valuation of the collateral does not exceed the prudently estimated pledge value. Commercial real estate is accepted as a risk mitigant for LTV ratio up to 50% of the open market value and 60% of the mortgage lending value. The open market value is defined as the

lower of two independently executed assessments of the commercial real estate. The open market value has to be re-estimated every year (for loans higher than BEF 1 million). The mortgage lending value is the value estimated by a valuation surveyor on the basis of a prudent prognosis of the future marketability of the commercial real estate. Speculative factors are explicitly excluded from this assessment.

Canada

Canadian banks, federally regulated trust and loan companies and federally regulated life and property and casualty insurance companies are required to meet capital adequacy standards prescribed by the Superintendent of Financial Institutions. The requirements are set out in guidelines that are available on the Office of the Superintendent of Financial Institutions (OSFI) website, osfi-bsif.gc.ca. The guideline for deposit-taking institutions is titled Capital Adequacy Requirements (CAR) and the guideline for life insurance companies is titled Minimum Continuing Capital and Surplus Requirements for Life Insurance Companies (MCCSR). OSFI is in the process of implementing risk-based capital adequacy requirements for property and casualty insurance companies. A draft guideline of the proposed Minimum Capital Test for Property and Casualty Companies is available on OSFI's website. Until the new capital rules are introduced in 2002, property and casualty companies are subject to a minimum asset test that measures the level of assets to cover liabilities. The test uses the book value of loan balances and does not adjust for collateral.

Deposit-taking institutions:

The capital adequacy guideline encompasses the international standards agreed upon in July 1988 at the Bank for International Settlements. Recognition of collateral in reducing the credit risk of claims is limited to cash or securities issued by OECD central governments, OECD central banks, OECD public sector entities and specified multilateral development banks. That portion of a claim that is covered by collateral will be assigned the weight given to the collateral (that is, 0% or 20%). The collateral must be marked to market regularly and should be held throughout the period for which the claim was outstanding.

Life insurance companies:

Assets collateralised by cash (bank certificates of deposit) or by securities issued by OECD central governments, OECD central banks, OECD public sector entities or multilateral development banks where the company does business, may be assigned the factor applicable to the collateral (that is, 0%, 0.25%, 1.6% or 2%). The collateral must be marked to market regularly and should be held throughout the period for which the asset was outstanding.

France

na (there is no link between loan-to-value ratios and capital adequacy standards in France).

Germany

The rules governing the valuation of the property are laid down in Section 11 of the German Mortgage Bank Act: "The loan may not exceed three fifths of the value of the property". Section 12 stipulates that "The value of the property used as a basis for the loan may not exceed the prudently assessed market value. When establishing this value, only the permanent characteristics of the property and the yield, which any tenant can sustainably ensure by proper management, shall be taken into account".

The strict observance of the three fifths value (60% loan-to-value-ratio) is not only relevant for mortgage banks which fall under the German Mortgage Bank Act but also applies to all banks according to Basel and EU solvency rules. The part of commercial and residential real estate loans below the 60% threshold is subject to

the preferential 50% weight, the part above it to 100%. Up to the 60% threshold, the real estate loan can serve as cover for Pfandbriefe (Section 6 Mortgage Bank Act).

The Association of German Mortgage Banks – with the approval of the Federal Banking Supervisory Office – published in October 1996 a "Statement of principles on the mortgage value of realty" which defines in detail the philosophy of mortgage value in accordance with Section 12 of the Private Mortgage Bank Law and, in particular, the differences between mortgage value and current value. This paper is applied by German mortgage banks. (A copy is obtainable on request from the G10 Secretariat.)

Banks draw up valuation instructions, which must include the provisions laid down in Section 12 Mortgage Bank Act, and which are directed primarily at the expert valuers commissioned to estimate the loan value. The valuers can be bank employees or independent external valuers.

Hong Kong SAR

Valuation of collateral

The HKMA has issued a guideline on the use of collateral and guarantees for credit risk mitigation. The guideline sets out the acceptance criteria of collateral and guarantees for the purposes of loan classification and provisioning and the valuation basis for collateral (net realisable value, ie the current market value of the collateral less any realisation costs).

Nature of collateral

Loans fully secured by residential mortgages, securities backed by residential mortgages and participations in residential mortgages are entitled to a 50% risk weight.

Conditions under which lower weights are applicable

A residential mortgage is a mortgage under which:

- the borrower is a natural person;
- the principal sum does not exceed 90% of the purchase price or the market value (whichever is the lower) of the property at the time the mortgage was approved;
- the debt is secured by a first legal charge on the property; and
- the property secured by the charge is used as the borrower's residence or as a residence by a tenant of the borrower.

For mortgage-backed securities, the holders of such securities will not absorb more than their pro rata share of losses in the event of arrears or default on payment of interest on, or principal of, the underlying mortgage loans.

Ireland

na

Italy

See Table A.6 for details.

Japan
See Table A.6 for details.

Netherlands

Only lower weighting possible for loans fully secured by mortgages on residential property, which, is or is to be, occupied or let by the borrowers. The property must be recently appraised by an expert; this is understood to be the appraisal made at the time of granting the mortgage loan or a reappraisal on renewal.

Spain

There are no different weights for different LTVs. Only mortgage residential loans under the Mortgage Law receive a 50% weight. The Law sets several requirements (first mortgage, valuation by an appraisal company, maximum LTV, insurance policy against damages, etc).

Sweden

There are no guidelines concerning the nature of the valuation.
Finansinspektionen has issued guidelines as to what is to be understood by "residential" (a completed building, at least 50% of the area must be intended for housing purposes, intended to be owner-occupied or let).

Switzerland

Guidelines on the nature of valuation of the collateral: none.
Guidelines on the nature of the collateral: see distinction in Table A.6.

United Kingdom[28]

Banks: FSA Guide to Banking Supervisory Policy (letters refer to chapter titles)		
Nature of collateral	NE 4.3.1	All acceptable forms of collateral are listed explicitly, in line with the Banking Consolidation Directive. No other forms of collateral may be used to attract a lower risk weighting.

[28] The Financial Services Authority (FSA) is the supervisory authority responsible for financial supervision in the United Kingdom. This includes banks, building societies, insurance firms and investment firms. In compiling answers to this questionnaire, we have liaised extensively with the FSA, the answers being our best understanding of the current guidelines and regulations.

Note: The provisions of the Financial Services and Markets Act come into effect on 1 December 2001. From this date interim prudential sourcebooks will apply to firms (www.fsa.gov.uk/pubs/other/interim_skb). The interim prudential sourcebooks set out standards by sector (banks, investment firms, insurance companies, etc) and broadly reflect the substance of existing standards for these sectors. A Conduct of Business sourcebook will also come into effect. The FSA has published a consultation paper "The integrated prudential sourcebook" which is expected to take effect in 2004 (final timing is uncertain and is contingent on the finalisation of the New Basel Accord, amongst other things). [See http://www.fsa.gov.uk/pubs/ – Consultation paper 97]

The UK approach is driven by the Basel Committee on Banking Supervision and relevant EU directives.

Nature of valuation	NE 4.3.1(9)(d)(b)	Securities used as collateral must be marked to market unless otherwise agreed with the FSA [common to both banking and trading books]
	NE 4.3.1(16)	An appropriate margin over the collateralised exposure should be maintained to cover fluctuations in the market value [guidance provided]
Other conditions	NE 4.2.1(5)	Collateral arrangements must be supported by an independent legal opinion as to their enforceability in all relevant jurisdictions
	NE 4.3.1(9)(a)	Cash collateral may not be withdrawn for the term of the exposure; the right to retain and apply the cash must exist if the exposure goes beyond normal term
	NE 4.3.1(9)(b)	Cash collateral place at a third-party zone A institution receives a 20% risk weight, subject to the third-party confirming it hold no rights over the collateral

Please note that specific guidelines are also given for repo exposures – see TC 3.
For more detail, see the FSA Guide to Banking Supervisory Policy at http://www.fsa.gov.uk/pubs/supervisor/.

Investment firms: SFA Rulebook
For Securities and Futures Authority (SFA) investment firms, "acceptable collateral" has the effect of reducing the counterparty exposure by the amount held (ie effectively applying a 0% risk weight). This is used throughout the counterparty risk rules (for ISD firms, 10-170 onwards). The list of acceptable collateral defined in Chapter 9 of the SFA Rulebook comprises:

- Cash
- Gold & silver bullion/coinage
- CDs
- Zone A govt & central bank securities
- Securities issued by the European Communities.

Firms must have an unconditional right to apply or realise the acceptable collateral, and securities must be marked to market daily in accordance with 10-41(9).

Note that the SFA Rulebook will be replaced by the Interim Prudential Source Book for Investment Businesses from 1 December 2001. As noted, this will not significantly change the substance of the SFA rules. See www.fsa.gov.uk/handbook for more information.

United States

Yes. For commercial banks, loans in the 50% risk weight must have been made in accordance with prudent underwriting standards, be performing in accordance with their original term and not be 90 days past due or carried in the non-accrual category.

2. Do prudential authorities provide guidelines on the treatment of unrealised capital gains on stocks and property held by financial institutions with respect to their inclusion in Tier 1 or Tier 2 capital? Please provide details.

Australia

For ADIs:

Guidelines allow for the inclusion of unrealised capital gains on stocks and property as Upper Tier 2 capital, subject to:

Premises:

- Reserves arising from the revaluation of premises may be included in Upper Tier 2 capital subject to the following conditions:
  - the premises must be owned by an ADI or its subsidiaries;
  - the reserves must be shown on the balance sheet or notes to the accounts without passing through the profit and loss accounts;
  - the revaluations are conducted regularly and subject to audit review consistent with the Australian Accounting Standards (AASB 1010 and AASB 1041) and auditing practice; and
  - the amount of reserves to be included in Upper Tier 2 capital must incorporate the full effect of any diminution in the values of premises (ie net of any devaluations), and should be after allowance for expected realisation costs and associated taxes.

Other assets:

- To be eligible for inclusion in Upper Tier 2 capital, revaluation reserves of other assets (ie direct holdings of quoted, readily marketable securities) must satisfy the following conditions:
  - the assets must be directly held by an ADI or its subsidiaries;
  - the reserves (ie the difference between the market value and the book value) must be shown on the balance sheet or notes to the accounts without passing through the profit and loss accounts;
  - the reserves must incorporate the amount of any diminution in the values of the assets (ie net of devaluations); and
  - only 45% of the net revaluation surplus (net of devaluations) can be included in Upper Tier 2 capital.

For life and general insurers:

Unrealised capital gains and losses flow straight through the profit and loss account each year. Insurers do not have a concept of Tier 1/Tier 2 capital.

Belgium

The inclusion of unrealised capital gains on stocks in capital is prohibited.
Unrealised capital gains on property can be included as revaluation surplus values in Tier 2 capital. There are no established "best practices" or specific guidelines published for the determination of these surplus values but the prudential authorities do nevertheless monitor whether the surplus value is prudently estimated.

Canada

The valuation of assets for capital adequacy purposes is based on the financial statement carrying values.

Financial statements must be prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants, unless otherwise specified by the Superintendent.

Deposit-taking institutions
Stocks and property held for investment purposes are accounted for on a historical cost basis and written down for permanent impairment. No unrealised capital gains are recognised in income, Tier 1, or Tier 2 capital. Assets held for trading purposes are marked to market and unrealised gains and losses are recorded in income.

Life insurance companies
Stocks are carried on a moving average market value basis whereby carrying values are adjusted towards market value at 15% per annum. Net realised gains and losses are deferred and amortised in a similar manner. Real estate is carried on a moving average market value basis whereby carrying values are adjusted towards market value at 10% per annum. Unrealised net gains and losses on stocks and real estate which have been recognised in income are deducted from Tier 1 capital. Unrealised net gains and losses on stocks and real estate (net of income taxes and disposition costs) that are not backing liabilities are recognised in Tier 2 capital.

France

No unrealised gains are allowed in Tier 1 capital.

As far as Tier 2 is concerned, two categories of "hidden values" may be regarded as own funds:

- Hidden values arising from the practice of holding securities in the balance sheet at historic costs may be included in Tier 2 capital. This possibility is only offered for equities which can be realised at current prices and used to absorb losses on a going-concern basis, and provided these equities are subject to a 55% discount on the positive difference between the historic cost book value and the market value. This discount aims at reflecting regulatory concerns both about market volatility and about the tax charge which would arise were these equities to be realised. These unrealised gains are considered "latent" revaluation reserves.
- Some items which fulfil the following conditions: they can be freely used by a credit institution to cover risks normally associated with the conduct/performance of banking activities, where the losses or capital losses have not yet been identified; they appear in the books of the institution; their amount is fixed by the board and verified by the auditors. For instance, the latent reserve which appears in the financial accounts relating to leases, in respect of those institutions which are not required to calculate own funds on a consolidated basis.

Germany

According to Section 10 (2b, 6) of the German Banking Act, "Unrealised reserves shown in the notes to the last set of approved annual accounts pursuant to subsections (4a: core capital has to makes up at least 4.4% of the institution's risk assets; unrealised reserves may be counted only up to 1.4% of the risk-weighted assets) and (4b) in the case of land, rights equivalent to land, and building" count as additional capital (Tier 2) after deducting the items pursuant to subsection (3b) "up to the amount of 45% of the difference between the book value and the loan value".

According to Section 10 (2b, 7) of the German Banking Act, "The unrealised reserves shown in the notes to the last set of approved annual accounts pursuant to subsections (4a) and (4c) in the case of banking book positions up to the amount of 35% of the difference between the book value". Further conditions are laid out in Section 10 (2b, 7 (a), (b) and (c)).

Hong Kong SAR

SECURITIES

The treatment of unrealised gains on investments in securities of authorised institutions (AIs) with respect to their inclusion in core capital (Tier 1) or supplementary capital (Tier 2) for capital adequacy purposes is stated in the Third Schedule to the Banking Ordinance.

Securities held for trading purposes

For securities held for trading purposes, all unrealised gains on revaluation of the securities will be posted to the profit and loss account, which forms part of the core capital of AIs for capital adequacy purposes.

Securities not held for trading purposes

For securities not held for trading purposes (excluding debt securities classified as "held to maturity"), the treatment of the unrealised gains for capital adequacy purposes would depend on which accounting treatment the AI has chosen in dealing with the holding of securities. There are basically two accounting treatments available under Hong Kong SAR accounting standards – the "benchmark treatment" and the "alternative treatment". Once an accounting treatment has been chosen by an AI, it should be applied consistently by that AI.

If the "benchmark treatment" is chosen by an AI, any unrealised gains on investment in equity securities, while not to be recognised in the accounting record, would be regarded as latent reserves under supplementary capital. This is, however, subject to the requirement that the overall surplus of the latent reserves to be included in supplementary capital is limited to 45% of the surplus and that the overall deficit of such reserves, if any, shall be deducted from supplementary capital. Unrealised gains on investment securities other than equity securities are not included in latent reserves.

Under the "benchmark treatment", certain securities which do not qualify as investment securities would be regarded as other investments. Any unrealised gains arising from these securities will be posted to the profit and loss account, which would in turn increase the core capital.

If the "alternative treatment" is chosen, any unrealised gains would be recognised on the balance sheet as reserves on revaluation, which are eligible for inclusion in supplementary capital for capital adequacy purpose. Similar to the case of latent reserves, the overall surplus of the reserves on revaluation for inclusion in supplementary capital is limited to 70% of the surplus and the amount of overall deficit of such reserves, if any, shall be deducted from supplementary capital.

Debt securities held to maturity

Debt securities classified as "held-to-maturity" under the accounting standard are measured at amortised cost. Any unrealised gains are not recognised for capital adequacy purpose.

PROPERTY

Under the Third Schedule to the Banking Ordinance, an AI may report in supplementary capital the reserves on revaluation of:

(a) its land and interest in land other than any interest in land mortgaged to it to secure a debt; and
(b) its share of the net asset value of any subsidiary to the extent that such value has changed as a result of a revaluation of such subsidiary's land and interests in land other than any interest in land mortgaged to such subsidiary to secure a debt.

To be eligible for inclusion in supplementary capital, the revaluation must be formally carried through in the accounts and shown on the balance sheet. The amount to be included shall not exceed 70% of the revaluation surplus and shall not exceed the amount included in this item as at end-December 1998.

In case the book value of reserves arising from the revaluation of land and interest in land is in excess of the book value of such reserves as at end-December 1998, the excess, instead of being included as supplementary capital, should be deducted from the sum of all risk-weighted exposures for calculating the capital adequacy ratio.

Ireland

Yes, the Bank's Notice "Implementation of EC own funds and solvency ratio directives for credit institutions incorporated in Ireland", BSD S1/00 outlines the requirements necessary for credit institutions to comply with the terms of the EU directives (98/32/EC and 98/33/EC) which amend the Solvency Ratio Directive. This provides that capital gains on stocks and property are reported as Tier 2 (additional own funds) and are defined in the bank's prudential returns, which are used for off-site supervision of credit institutions, as the excess over book value of financial and tangible fixed assets arising from the periodic revaluation of those assets at market value.

Italy

Capital gains on shareholdings

35% of the value of net unrealised capital gains[29] on shareholdings in non-bank and non-financial companies listed on a regulated market are included in calculating supplementary supervisory capital (Tier 2). Such capital gains may in no case exceed 30% of core capital (Tier 1).

Revaluation reserves

The revaluation of property and shareholdings in the annual accounts is possible only pursuant to specific laws. The resulting revaluation gains must be allocated to specific reserves, on which taxation is generally deferred. The revaluation reserves are subject to taxation only upon distribution to the shareholders or upon sale of the revalued assets.
The revaluation reserves are included in supplementary capital (Tier 2).

Japan

45 % of unrealised capital gains on available-for-sale securities and 45% of land revaluation are to be included in Tier 2, according to Article 5 of the "Notification of capital adequacy standards".

Netherlands

Yes: property is measured at actual value; revaluations go to the revaluation reserve (Tier 2); stocks in the trading portfolio are measured at market value; (un)realised gains go through P/L to retained earnings (Tier 1).

[29] The net capital gain is the result of offsetting between unrealised capital gains and losses on shareholdings. Capital gains/losses are calculated by comparing the balance sheet values of shareholdings with their respective market values.

Spain

At times of high inflation, legislation was passed enabling owners to adjust upwards the value of some assets, and typically real estate, by the amount of unrealised gains. For credit institutions, these unrealised gains, if they are freely available to cover the risk inherent to the banking activity, and once taxes are deducted, can be considered Tier 2 elements.

Sweden

Swedish credit institutions cannot, as a general rule, hold equities or real property for investment purposes. Thus unrealised gains on stocks and properties are not a major question.
Unrealised gains on stocks held in the trading book are part of the capital base to the extent that they have been reported in the (audited) profits for the period.
Unrealised gains on repossessed properties cannot be recognised.
A revaluation reserve that is set up in connection with revaluation of fixed assets may, subject to consent from Finansinspektionen, be included in Upper Tier2.

Switzerland

Unrealised capital gains on stocks and property are included in Tier 2 capital.
Guidelines on their treatment: the maximum amount to be included is the difference between the maximum permissible value according to Article 665 of the Code of Obligations (CO) and the book value, whereby the amount eligible for inclusion may not exceed 45% of the difference between the market and the book value. Article 665 of the CO states that fixed assets have to be valued at best at purchase or production costs, deducting necessary write-offs.

United Kingdom

Property can be revalued to current market value and any surplus/loss taken to a revaluation reserve as part of Upper Tier 2. With respect to stocks, a bank would be expected to record its holdings of banking book stocks in accordance with historical cost rules; no regulatory capital benefit would accrue until the gain is realised. Daily net trading book profits are no longer eligible for inclusion in Tier 3 capital. (See the chapter on capital (CA) in the FSA's Guide to Banking Supervisory Policy for further information.)

United States

Yes. Up to 45% of pre-tax net unrealised holding gains on available-for-sale equity securities with readily determinable fair values may be counted in supplementary capital (not allowed for properties).

3. Do prudential authorities provide guidelines on the treatment of market risk in determining capital adequacy? Please provide details.

Australia

For ADIs:

The Australian Prudential Regulatory Authority's (APRA) approach to measuring and managing market risk distinguishes between assets held in an ADI's "trading" book and those held in its "banking" book. Positions may be allocated to either the trading book or the banking book according to the ADI's trading book policy statement.

An ADI must hold market risk capital against interest rate risks and equity risks arising from positions held in the trading book. No explicit capital charge relating to market risk is required for interest rate risks and equity risks outside an ADI's trading activities. Market risk capital must also be held against credit derivatives in an ADI's trading book. Market risk capital must be held against all foreign exchange and commodity risks. For the purposes of the market risk capital requirements, no distinctions are drawn, in principle, between risks arising from physical positions and from positions in derivative instruments.

An ADI with no trading book activity, and no foreign exchange or commodity positions, is exempt from capital and reporting requirements, but must include a statement to this effect in its risk management system description.

Life insurers:

The Solvency and Capital Adequacy Standards make a crude attempt at capturing market risk by means of the capital charges for inadmissible assets and balance sheet mismatches.

General insurers:

No.

Belgium

Guidelines are provided by the market risk amendment to the Basel Capital Accord and in the capital adequacy directives of the European Union.

Canada

Deposit-taking institutions:

The capital requirements for market risk are covered in Guideline A – Part II, Capital Adequacy Requirements – Market Risk. The guideline encompasses the international standards agreed upon at the Bank for International Settlements in the 1996 amendment to the Capital Accord. The guideline is available on OSFI's website.

Life insurance companies:

The MCCSR requirements do not include the use of a comprehensive model for market risk. However, the asset default factors take into consideration the risk of loss of market value of equities and the related reduction of

income. In addition, MCCSR includes capital requirements for interest margin pricing risk and changes in interest rate environment. The guideline is available on OSFI's website.

France

Yes. Regulation 95-02 of 21 July 1995 accounts for that.

Germany

Capital requirements on market risk exposures were treated according to the methodology laid down in the Basel Committee's Market Risk Amendment of 1996.

Hong Kong SAR

Yes. The market risk capital adequacy regime was implemented in Hong Kong SAR with effect from 31 December 1997. For the purpose of providing legal backing to this regime, a minimum authorisation criterion was inserted in the Seventh Schedule of the Banking Ordinance requiring locally incorporated authorised institutions to maintain adequate capital for market risk exposures. A statutory guideline was also issued by the HKMA in November 1997 to spell out the detailed requirements for this regime. This regime is based on the framework set out in the Amendment to the 1988 Capital Accord issued by the Basel Committee in January 1996. Market risk is defined as the risk of losses in on- and off-balance sheet positions in interest rate instruments, equities, commodities and foreign exchange arising from movements in market prices or rates. The objective of the framework is to ensure that authorised institutions hold adequate capital against the price/rate risks to which they are exposed, particularly those arising from their trading activities. This is in addition to the existing credit risk capital requirements. Institutions subject to this regime must maintain both their adjusted capital adequacy ratio incorporating market risk and capital adequacy ratio above the statutory minimum ratios set for them.

Three-tier approach:

In developing the framework, the HKMA is mindful that most locally incorporated authorised institutions are not heavily involved in the trading of securities and derivative products. The HKMA has therefore adopted a three-tier approach in the implementation of this market risk framework:

(i) a model-based approach (value-at-risk) for active market participants who have developed sophisticated model-based systems for measuring market risks, subject to supervisory approval of the model;
(ii) a standard approach based on the Basel standardised framework for less sophisticated institutions;
(iii) an exemption for institutions with market risk positions below a certain threshold.

Ireland

Yes, the Bank's Notice "Implementation of EU directive on the capital adequacy of investment firms and credit institutions", BSD S 2/00, outlines the requirements necessary for credit institutions to comply with the terms of EU Directive (93/6/EEC) on the capital adequacy of investment firms and credit institutions.

Italy

The supervisory authority establishes prudential requirements in respect of banks' securities and foreign exchange trading, with the aim of limiting the risks connected with adverse movements in market prices (interest rates, exchange rates and share prices).

The method used is the so-called "building-block approach" of identifying separate capital requirements for the different types of risk. In particular, the supervisory provisions envisage compliance with capital requirements intended to cover the following types of risk: 1) position risk, 2) settlement risk, 3) counterparty risk, 4) concentration risk, and 5) foreign exchange risk.

These rules are in conformity with Community legislation concerning market risks and the 1996 amendment of the Basel Capital Accord.

In addition, there is a system of periodic monitoring of banks' overall exposure (ie over the entire balance sheet) to interest rate risk.

Japan

The standard on the treatment of market risk is contained in the provisions of Annex III of the "Notification of capital adequacy standards".

Netherlands

Yes: capital requirements for market risk in the context of the solvency ratio are the sum of capital requirements for foreign exchange risk and gold price risk, market risk on commodities positions, market risk on equities and market risk on debt instruments.

Spain

Yes, market risk is regulated according to Directive 93/6/EEC on capital adequacy.

Sweden

Yes, Sweden has implemented the Capital Adequacy Directive, CAD 93/6/EEC. Regulations and guidelines have been issued on the application of those rules. Apart from them, there are no specific guidelines concerning market risk.

Switzerland

The law provides two methods for calculating the necessary capital adequacy standard with regard to market risk positions in interest rate instruments, in equity securities in the trading book, in foreign exchange, in gold and in commodities: the standard approach ("Standardverfahren") and the model-based approach ("Modell-verfahren"), whereby the latter must be approved by the Swiss Federal Banking Commission

United Kingdom

The UK approach basically reflects the 1996 Basel Market Risk Amendment and its implementation in the Capital Adequacy Directive.
The treatment of market risk in determining capital adequacy is covered in the FSA's Guide to Banking Supervisory Policy. The chapter on Capital Adequacy Overview (CO) presents the overall capital adequacy treatment for both banking book and trading book exposures. There are separate chapters relating to various aspects of the market risk capital adequacy calculation: foreign exchange risk, commodity position risk, equity position risk, interest rate position risk, concentration of credit exposures. An alternative approach to calculating

capital requirements for market risk in the trading book involves the use of a bank's internal VaR models – this is also outlined in a separate chapter.

United States

Yes. The sum of Tier 2 and Tier 3 capital allocated for market risk must not exceed 250% of Tier 1 capital allocated for market risk.

4. Do prudential authorities provide any guidelines on the treatment of loan classification? Please provide details.

Australia

For ADIs:

APRA relies upon the credit risk grading system (CRGS) adopted by each ADI. An ADI's CRGS should:

- cover as much of an ADI's portfolio as possible, including off-balance sheet exposures;
- for applicable exposures, cover both performing and impaired assets to provide for the migration of an exposure from fully performing to loss status;
- allow for aggregation of individual but related exposures;
- be periodically validated to ensure that it continues to deliver reliable information and adequately distinguishes between exposures of varying credit quality;
- have a sufficient number of risk grades to ensure that the system adequately captures graduation of risk; and
- poorer quality facilities should at least include four categories along the lines indicated below:
    - special mention, where clients are experiencing difficulties which, if they persisted, could result in losses – such clients should be subject to special monitoring, including more frequent review and management scrutiny;
    - substandard, where definable weaknesses are evident which could jeopardise repayment, particularly of interest – the ADI is relying heavily on available security;
    - doubtful, where the situation has deteriorated to such a degree that collection of the facility amount in full is improbable and the ADI expects to sustain a loss; and
    - loss, where facilities are considered uncollectable within a reasonable time frame.

Life and general insurers:

No.

Belgium

The classification of banks' claims into three types (claims that proceed normally, claims of which the reimbursement is uncertain and irrecoverable claims) that is included in the Belgian bank accounting regulation is also used for prudential purposes.

Canada

Accounting treatment for deposit-taking institutions and life insurance companies

Loans are accounted for following Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants (CICA). Section 3025 of the CICA Handbook deals with accounting for impaired loans. OSFI has issued a guideline that provides application guidance to Section 3025. The Impaired Loans Guideline is available on OSFI's website.

Capital adequacy

Banks:
Loan credit risk for capital adequacy purposes is recognised by risk weighting loan balances by 0%, 20%, 50% or 100% depending on the counterparty. Certain collateral and guarantees may be used to reduce credit risk. Risk weight categories are laid out in the Capital Adequacy Requirements Guideline available on OSFI's website.

Life insurance companies:
Asset default factors are applied to loan balances (based upon the rating assigned to the instrument by credit rating agencies) as part of the calculation of required capital for life insurance companies. The factors are laid out in the MCCSR Guideline, available on OSFI's website.

France

Yes. Regulation 91-05 of 15 February 1991 distinguishes several risk weight buckets which take into account the nature of the counterparty and/or of the loan (residential mortgage loan: 50%), the maturity of the loan and the degree of commitment in the case of off-balance sheet items.

Germany

Regulatory loan classification takes place according to the rules of the Basel Accord of 1988.

Hong Kong SAR

Yes. Under the HKMA's loan classification system, authorised institutions are required to report their assets (consisting of loans, acceptances and bills of exchange held, investment securities, accrued interest receivables, balance due from banks and commitments and contingencies) according to five categories: Pass, Special Mention, Substandard, Doubtful and Loss.

The HKMA has provided guidance to authorised institutions about the treatment of loan classification. They are required to take account of both qualitative (eg the borrower's financial strength, credit history and industry outlook) and quantitative (eg overdue period and value of security) factors in determining the grading of their assets. Moreover, they should also provide adequate loan loss provisions based on the results of their loan classification systems.

Ireland

Yes, the Bank's Notice BSD S 2/00 outlines the risk weightings applicable to different classifications of loans typically provided by a credit institution, eg residential mortgages. In addition, the Bank's prudential returns provide classification for reporting purposes of these various types of loans provided by credit institutions.

Italy

Loan classification is based on definitions established by the supervisory authority and reflects the contractual form of loans (loan, overdraft, etc), duration of loans (short- vs medium- and long-term) and solvency of borrowers (performing vs non-performing loans).

In particular, non-performing loans are divided into the following categories by decreasing order of risk: bad debts, substandard loans, loans being restructured, restructured loans. Unsecured loans to borrowers resident in high-risk countries are included among non-performing loans.

Bad debts: total amount of claims on customers in a state of insolvency or basically equivalent situations, independently of any forecasts of losses formulated by the bank and the existence of any guarantees.

Substandard loans: total amount of claims on borrowers in a situation of temporary difficulty which is likely to be rectified within a reasonable period of time. Any guarantees are not taken into account. Substandard loans in any case include positions on which substantial amounts (at least 20% of the exposure) are past due by more than predetermined limits (6–12 months).

Loans being restructured: loans satisfying the following conditions: a) the counterparty is indebted to a plurality of banks; b) the borrower has applied for consolidation not more than 12 months previously. Where more than 12 months have elapsed, the banks are required to verify whether the conditions exist for classifying their exposure among substandard loans or bad debts.

Restructured loans: loans in which a pool of banks (or a single lender), in granting a moratorium on the repayment of the debt, renegotiates the debt at a lower-than-market rate.

Japan

Yes.

Netherlands

Classification of loans is not required, nor is there guidance on classification of loans.

Spain

Yes, the prudential authorities set the classification of a loan as impaired or non-impaired as well as the provisions required.

All loans are considered doubtful once they are 90 days past due. Residential mortgage loans shall be provisioned three years after the declaration as doubtful. For the remaining doubtful assets, including other non-residential mortgage loans, provisions should be set aside as soon as they are declared as doubtful.

Sweden

The central concept for loan classification is that of doubtful loans, for which a value adjustment (provision) has to be made. A doubtful loan is any loan for which it is probable that payments of interest and/or capital will not be received on the normal contractual terms and for which there is no security that adequately covers all claims. A provision has to be made amounting to the difference between the previous book value and the estimated recovery value of the claim.

Finansinspektionen's guidelines discuss inter alia various signs that may indicate possible problems with the full recovery and which thus should make the credit institution reassess the value of its claim.
Loans where payments are 60 days overdue or more have to be reported as non-performing and institutions are expected always to reassess the value of such loans.

Beyond this, there are only general guidelines concerning the management of credit risk, which mention that institutions should make use of internal classification systems in order to be able to follow the development of their portfolio credit quality.

Switzerland

The risk weight put on loans depends on the nature of the counterparty; see Table A.6.

United Kingdom
Loan classification in the context used here refers to the treatment of credit risk in the banking book and the risk weighting assigned to loans from different entities. This risk weighting classification broadly reflects the structure of the current (1988) Basel Accord.

The chapter "Credit Risk in the Banking Book" (BC) in the FSA's Guide to Banking Supervisory Policy 'classifies' loans according to whether they are made to a country (zone A or B), a bank (incorporated in a zone A or B country), a corporate entity, an individual, etc. The capital treatment is different according to what type of entity the loan is made to. There are five categories of counterparty risk weights: 0%, 10%, 20%, 50% and 100%.

United States

Yes. In commercial real estate, substandard loans are defined as loans inadequately protected by the worth and paying capacity of the obligor; doubtful loans include those with all the above weaknesses plus additional ones that make collection or liquidation in full highly questionable. A loan is classified as loss if it is uncollectible and its continuance as bank assets is not warranted. For a residential loan, it is classified as substandard if it is 90 days or more past due and its LTV is greater than 60%. A residential real estate loan is classified as loss if it is in bankruptcy.

5. Do (broker-dealer) margin accounts exist? Are these provided by financial institutions and/or brokers? Are there regulations with respect to the extent of debit balances on margin accounts? Please provide details.

Australia

Margin accounts are available in Australia, and are provided by both financial institutions (56% of the market by value) and brokers (44% of the market by value). There are no specific government regulations with respect to the extent of debit balances on margin accounts.

Belgium

na

Canada

Yes, they are offered by investment dealers and brokers. For member firms, the rules for margins are generally contained in the Regulations of the Investment Dealers Association of Canada (IDA). The IDA Rule Book is available for review on its website, at www.ida.ca. The provisions for margins are in Regulation 100.

Margin limits (ranging from 50% to 70% of the value of the underlying shares) are based on a sliding scale related to the price of the stock and its option eligibility (a proxy for liquidity). Individual dealers can set lower limits. The IDA can rule a stock ineligible for margin lending.

France

Clearing house members are compelled to daily margin calls which aim at covering the clearing houses' risks as guarantor of the proper execution of their members' transactions. The margin deposits made by the clearing house members shall be deducted from the risk corresponding to the unsettled transactions provided the calculation of the margin deposits was sufficiently prudent. (See Regulation 95-02, Annex IV.)

Germany

Margin accounts between financial institutions and/or brokers exist, but there are no supervisory regulations attached to them.

Hong Kong SAR

Yes. According to the prevailing legal framework, both authorised institutions and brokers registered with the Securities & Futures Commission of Hong Kong (SFC) may provide margin accounts to their customers for financing the purchase of shares and subscribing new share issues.

For financing the subscription of new share issues, the HKMA expects authorised institutions to apply a margin requirement of 10% to their customers. They are also expected to set a prudent margin requirement for financing the purchase of each major type of shares in their lending policies. In addition, the maximum exposure to a customer is subject to a statutory limit of 25% of the capital base of a locally incorporated authorised institution.

Margin lending by registered brokers is based on risk-adjusted regulatory capital requirements. Registered brokers are subject to the Financial Resources Rules, which specify the types of assets that can be treated as collateral and how these are to be valued. For instance, securities collateral must be stated at market value and be subject to different haircut deductions (please refer to the answer to Question 7 for details). The Financial Resources Rules also apply additional risk adjustments where there is a concentration in loans made to individual margin clients or groups of related margin clients. Further risk adjustments are required if there is a concentration in holdings of individual securities or related securities as collateral. All these factors are taken into account when determining the extent to which a margin loan can be included as an asset when computing the required regulatory capital. For example, where a broker has lent $100,000 to a client but only $70,000 can be included as assets, then the broker will need to fund the difference in order to meet regulatory capital requirements. The broker is required by law to cease trading if it fails to do so.

Ireland

No, (broker-dealer) margin accounts do not exist and are not provided by financial institutions in Ireland. There are no regulations in place with respect to the extent of debit balances at margin accounts.

Italy

The 1998 Consolidated Law on Financial Intermediation (Legislative Decree 58/1998) establishes that the banking supervisory authority, in agreement with the market supervisory authority, shall regulate the operation of clearing and guarantee systems for transactions involving financial derivatives and provide for participants to make margin payments.

System members are divided into: 1) general members; 2) individual members; 3) indirect members.

General members become counterparties of the clearing and guarantee company (the so-called clearing house) for transactions that they conclude for their own account or on behalf of indirect members. Individual members become counterparties of the clearing and guarantee company only for the transactions that they conclude for their own account. Indirect members become counterparties of the general members that they have appointed to manage their own contractual positions.

The following may be general and individual members:

a) banks and investment firms authorised in Italy to provide investment services and EU banks and investment firms authorised to provide such services;
b) persons that manage other foreign or domestic clearing and guarantee systems, provided they are subject to supervisory measures equivalent to those established in Italian legislation and their respective supervisory authorities have agreed to exchange information and apply reciprocity.

Persons indicated at points a) and b) and other intermediaries admitted to trading on regulated markets may be indirect members.

There are three types of margins: initial, variation and delivery. The methods of calculating margins are governed by rules issued by the clearing house and approved by the Bank of Italy.

Initial margins must be deposited by all members for transactions concluded in the market. The amount of initial margin is calculated in such a way as to ensure adequate coverage of the potential losses, estimated on the basis of price movements recorded in an appropriate period of time. Variation margins are deposited by members at the request of the clearing house in an amount adequate to cover the loss for the day. Delivery margins are required by the clearing house against the decision by the participant to execute the contract with delivery of the financial instruments. Delivery margins are designed to cover the related potential loss in the event of settlement default.
Variation margins may only consist of cash. The other margins may also consist of securities or guarantees issued by banks that do not belong to the same group as the guaranteed member or of the assets underlying the derivative financial instrument.

Japan

Accounts for dealings on credit, such as those for stock transactions, exist. Customers of securities companies can deal on credit, using such accounts at those companies that act as brokers. Credit is given by specialised financial institutions and securities companies. Borrowing amounts are defined by the rules set by each financial institution.

Netherlands

Yes. These accounts are compulsory to any party that trades securities. Margin accounts are cash accounts and are used to fulfil margin requirements stemming from positions in the securities market.

Yes. With respect to Euronext, there is a layered structure: clearing members use their central bank accounts to fulfil their margin requirements vis-à-vis Clearnet (by means of a central bank guarantee) and broker-dealers use their margin accounts with their clearing member to fulfil their margin requirements vis-à-vis their clearing member. Clearing members are obliged to use the same risk management method as Clearnet.

A debit balance on a margin account is not possible. The balance on a margin account is used to cover margin requirements stemming from positions in the securities market. Therefore these accounts can never have a debit balance.

Spain

Yes, they exist for derivatives markets. These margin accounts are provided by customers – whether or not they are financial institutions – acting through a broker that must be a member of the derivative clearing house.

Sweden

a) Account structure and clearing members' liability

The clearing member has a numbered account for his own positions. Clearing members also have separate segregated numbered subaccounts for each client for whom they provide a clearing service. A major difference between a clearing member and an end customer associated with Stockholmsbörsen is that the clearing member is a legal entity, which may act on behalf of an end customer. As an agent, the clearing member has full authority for issuing instructions on each client's subaccount and is fully responsible for all contractual obligations on the accounts.

Collateral from clients is lodged with an approved custodian and pledged to the clearing member. Stockholmsbörsen deals with the clearing member for trade confirmations, exercise notices, deliveries and daily cash settlements, and any deficiencies in meeting the margin requirements. Clearing members need not be Exchange members.

A direct client account is called a "segregated trading and clearing account". The client has a single account for all trades transacted through multiple market participants. End customers who elect to pledge collateral directly to Stockholmsbörsen may open one or more trading accounts and request to connect these to a single clearing account with a clearing member. Typically, large institutions trading with several banks or brokerage firms use this account structure. Collateral pledged directly to Stockholmsbörsen is placed in the custody of a custodian institution.

An integrated trading and clearing account is a consolidated trading and clearing account with Stockholmsbörsen on which subsequently registration, calculation of margin requirements, exercise and settlement transactions can occur. An end customer using an integrated trading and clearing account pledges all collateral to the clearing member. The clearing member in turn pledges the aggregate of all end customers' collateral amounts to Stockholmsbörsen, through a custodian institution. No netting between different end customers' clearing accounts is allowed.

The custodian institution holds the collateral on Stockholmsbörsen's behalf and confirms that sufficient collateral is pledged. Stockholmsbörsen sends the clearing member a margin list specified by clearing account with trade confirmations, positions, exercise notes, etc daily.

b) Collateral margin

The absence of daily cash payments from a "mark-to-market" settlement has given increased emphasis to the provision of collateral rather than cash. Stockholmsbörsen has an established list of acceptable collateral and the

value which is allowed. Credit and liquidity issues are taken into account and limits prescribed for bank guarantees.

The Swedish Bankers' Association's recommendations apply to customer-to-member collateral. In addition, the following collateral is accepted:

(i) Funds pledged in an account with a member
(ii) Funds pledged in an account at a bank
(iii) Guarantees by a bank approved by "OM (stock exchange operator)".

c) Who provides margin accounts

Margin accounts are provided by a member of Stockholmsbörsen or by a custodian bank. Financial institutions are not members of Stockholmsbörsen, instead they have a margin account with a member of Stockholmsbörsen, or at a custodian bank.

d) Provision of collateral

An obligation to provide collateral arises when the margin requirement is negative. A collateral deficiency exists where the collateral sum is insufficient to cover a negative margin requirement. In such a case, collateral must be provided to cover the collateral deficiency.

Where there is a collateral surplus for a particular clearing account, the clearing house may allow the surplus to be set off against a collateral deficiency with respect to another clearing account of the same account holder.

Members and customers shall provide collateral not later than 11 am on the Swedish bank day after a collateral deficiency has arisen, irrespective of whether the collateral deficiency has arisen as a result of registration of contracts, changes in value with respect to already registered contracts, or a negative change in value of the collateral sum. The clearing house and clearing members may, however, decide that security may instead be provided in conjunction with the execution of a trade, at the time of registration, or any other time.

The collateral institution shall, not later than 12 noon on each Swedish bank day, confirm to the clearing house that sufficient collateral has been provided in accordance with the collateral requirements set forth in the most recently issued collateral requirements schedule.

Where the clearing house has calculated and notified a new margin requirement, the collateral institution shall, as far as possible, conduct a new valuation of the collateral provided and thereafter immediately notify the clearing house whether acceptable collateral exists.

(The above answer was provided by Stockholmsbörsen.)

Switzerland

na

United Kingdom

Margin accounts are provided by both financial institutions and brokers. The regulations are outlined in the SFA rules, Chapter 5: specifically rule 5.27, which covers customer borrowing; and rule 5.28, which covers margin requirements. These will be replaced by the Conduct of Business Sourcebook referenced above.

United States

Yes. Margin accounts are provided by both financial institutions and brokers. Debit balances, however, cannot exceed 50% of the current market value of the security or the percentage set by the regulatory authority where the trade occurs, whichever is greater.

6. If margin accounts exist please indicate briefly the customer and broker requirements for opening such accounts.

Australia

The brokers' requirements for opening a margin loan are:

- the size of loan as a proportion of underlying securities does not exceed a specified value. This is normally referred to as the loan-to-valuation ratio, and often set at between 50% and 70%, depending on the size, quality and liquidity of the underlying securities; and
- the customer must satisfy 100 points of an identification check.

Belgium

na

Canada

If a client of an investment dealer decides to buy securities on margin, he will need to open a margin account. The investment dealer will provide a margin agreement to the investor for review and signing. The margin agreement explains the terms and conditions of the margin account, including how the interest on the loan is calculated, the responsibility of the investor for repaying the loan, and how the securities bought on margin serve as collateral for the loan. The investment dealer will also conduct a credit check on the investor to confirm that they are creditworthy. The investment dealer will provide periodic disclosures informing the investor of transactions in the margin account and the interest charges incurred.

France

na

Germany

Not available.

Hong Kong SAR

A margin client agreement should be signed before an account is opened. The agreement should at least contain the identity of the client, a description of the services to be made available (eg securities margin account) and any relevant risk disclosure statements. It should also specify the details of margin requirements, interest charges, margin calls and the circumstances under which a client's position may be closed without the client's consent.

In addition, registered brokers are required under the SFC's Code of Conduct to consider obtaining objective proof of net income or net worth of a prospective margin client and identifying other margin clients related thereto to avoid building up excessive exposure to groups of related margin clients.

Ireland

na

Italy

See the response to Question 5 above.

Japan

There are no legal requirements for opening such accounts, though customers are required to follow the procedures set by each securities company when opening accounts for dealing on credit.

Netherlands

Any party that trades securities is obliged to have a margin account. In the case of Euronext, clearing members offering a margin account are obliged to use the same risk management method as Clearnet.

Spain

There are no specific requirements for opening such accounts.

Sweden

When a customer opens an indirect clearing and trading account with Stockholmsbörsen, the customer must sign an "integrated trading and clearing account agreement with Stockholmsbörsen". This defines which clearing member the customer uses and which account is pledged to the member.

When a customer opens a direct clearing account with Stockholmsbörsen, the customer must sign a "customer agreement". This defines which clearing member and custodian institution the customer uses. The custodian institution confirms to Stockholmsbörsen that the account is pledged to Stockholmsbörsen.

A member of Stockholmsbörsen has to sign a "member's pledge to Stockholmsbörsen". The document defines which accounts are pledged to Stockholmsbörsen and which custodian institution the member uses.

(The above answer was provided by Stockholmsbörsen.)

Switzerland

na

United Kingdom

The rules for new accounts are covered in Chapter 5, of the SFA rules, rule 5.23 – Customer agreements. These will be replaced by the Conduct of Business Sourcebook referenced above.

United States

There are no requirements for opening margin accounts for either brokers or customers.

7. Are there any guidelines on loans collateralised by equity? Are there any limits on loan-to-value ratios and haircuts on such loans? Please provide details. Please provide an estimate of such loans in the financial system and time series data if possible. (Please indicate the information source.)

Australia

For ADIs:

No.

No data are available on the quantum of such loans.

Life and general insurers:

No.

Belgium

There are no specific guidelines or limits established for this kind of collateralisation. Equity is only recognised as a risk mitigant for risk concentration purposes (the value of the equity collateral must however exceed 250% of the collateralised loan) and not as a risk mitigant for capital adequacy purposes under the current Basle Accord. The New Basel Accord will, however, to a certain extent accept equity as a risk mitigant (appropriate haircuts will be applied).

Canada

There are no guidelines on loans collateralised by equity. Equity is not recognised as collateral for capital adequacy purposes. As part of OSFI's annual examination of institutions, OSFI ensures that institutions have adequate policies and procedures to monitor and control credit risk, including setting appropriate limits on LTV ratios for loans collateralised by equity. No data are available on loans collateralised by equity.

France

Loans collateralised by equity are mainly repos. Their regulatory treatment depends on their classification in the banking book or in the trading book.

For repos in the banking book, the equities received are considered as collateral, and therefore the risk weight applicable is either the borrower's or the issuer's risk weight, whichever is lower. This treatment is subject to the delivery of the equities; in the case of non-delivery the risk weight applicable is the borrower's.

Trading book repos and securities lending are treated as follows: the lender shall calculate the difference between the amount it has lent and the market value of the equities it has received, where that difference is positive. However, a nil value is assigned to the equities when either of the following conditions is met: the issuer of the equities is linked to the borrower or the equities are not delivered. The accrued interest shall be included in the calculation of the market value of the amounts lent and the collateral. The own funds requirement shall be equal to 8% of the amount calculated by the aforesaid procedures, multiplied by the risk weighting applicable to the counterparty involved.

Notwithstanding these provisions, no requirement shall be applied to transactions entailing a margin call between the parties which is adequately proportional to the risk and whose legal framework ensures enforcement of the guarantee (or foreclosure on the collateral) in the event of the counterparty's default.

Germany

Currently, equity is not eligible as collateral for supervisory purposes. Basel II will account for loans collateralised by equities included in a main index.

Hong Kong SAR

Yes. Authorised institutions are expected to set prudent LTV ratios for exposures collateralised by different types of equity shares in their lending policies (for example, the HKMA expects authorised institutions to follow the market practice of setting an LTV ratio not in excess of 50% if the exposure is secured by blue chip shares and substantially lower (eg 30%) for non-blue chips). In addition, authorised institutions should take immediate action to reduce the outstanding balances or call for additional collateral if the exposure is under-secured.

For brokers registered with the SFC, the "LTV ratios" (converted from the haircut deduction as stipulated by the Financial Resources Rules) can be summarised as follows:

Listed in Hong Kong SAR:	
Constituent stock of HSI 33 Index	85%
Other constituent stocks of HSI 100 Index	80%
Other HK-listed stocks	70%
Listed outside Hong Kong SAR	various.

These ratios may be adjusted downwards significantly where one particular equity or group of related equities accounts for a large percentage of a broker's aggregate collateral. Please note that these "ratios" work on the basis of increasing or decreasing the regulatory capital requirement for a broker, and are not strict stipulations regarding lending ratios.

For example, if the concentration in collateral is with an HSI 33 or HSI 100 constituent stock, then no concentration risk adjustment will be made if it only accounts for, respectively, 20% or 15% of the broker's aggregate collateral. If the concentration in collateral is with a stock which is listed on the Hong Kong Stock Exchange but is not a constituent stock, then the percentage is lowered to 10%. Where a broker's concentration in collateral has breached the levels mentioned, the ratios may decline rapidly depending on the degree of concentration in a particular stock or group of stocks.

Similarly, the Financial Resources Rules impose a cap whereby if an individual margin client (or group of related margin clients) account for more than 10% of aggregate margin loans extended by the broker, the excess over 10% may not be counted for regulatory capital purposes.

In addition, registered brokers are also required to follow the relevant requirements in the SFC's Code of Conduct and Management, Supervision and Internal Control Guidelines to ensure that they have adequate internal control systems in place for managing their risks prudently. In particular, their policy framework should address the list of securities acceptable as collateral and the different haircuts applicable to collateral, bearing in mind their liquidity and volatility in prevailing market conditions.

In practice, most registered brokers conduct margin lending on a more conservative basis than that stipulated in the Financial Resources Rules.

Based on the information submitted by the brokers to the SFC, as at the end of June 2001, total margin loans extended by brokers amounted to HKD 13 billion and the estimated LTV ratio for the industry would be around 37%, which was consistent with the ratios from January to May 2001.

Ireland

While no specific guidelines, or limits on LTV ratios or haircuts have been issued regarding loans collateralised by equity, the Bank requires each credit institution to have in place lending policies appropriate to the business of the institution. The adequacy of these policies is reviewed by the Bank during the course of its on-site inspections.

The prudential returns provide a classification of various types of loans granted by a credit institution. Although the returns do not provide for an estimate of these loans, as there is no specific categorisation of loans collateralised by equity on the return, these loans would be reported to the Bank in aggregate form elsewhere on the return.

Italy

The prudential rules in force (solvency ratio, large exposures and market risks) do not admit equity securities for the purposes of reducing counterparty risk. This is in line with Community legislation and with the rules developed by the Basel Committee on Banking Supervision.

Japan

There are no legal requirements.

Netherlands

There are guidelines with regard to custody rules. Securities held in custody by a domestic credit institution on behalf of a customer must be properly shown to be the property of the customer.

For some loans collateralised by securities, a lower risk weighting is possible. The maximum LTV for those loans is 90%. It concerns securities like treasury paper issued by Zone A central governments; bonds issued or guaranteed by zone A central governments and central banks, domestic regional and local authorities, regional and local authorities in EU countries (insofar as covered by stipulations re level playing field); securities issued or guaranteed by multilateral development banks; or securities issued by foreign Zone A regional or local authorities.

Spain

Lending of securities is a meaningless activity for Spanish credit institutions and there are no guidelines on their collateralisation by equities.

Loans collateralised by equities are admitted under Article 4.11 of the Large Exposures Directive (92/121/EEC), in order to attribute the exposure to the issuer. Equities issued by credit institutions are not admitted. The haircut applicable to the equities is 150%, ie the maximum LTV in this case is 40%.

Loans collateralised by equities do not receive a reduced weight in solvency regulations.

Sweden

The Swedish Securities Act permits securities institutions (which can be banks) to provide loans with financial instruments as collateral. The Act does not specify any haircuts, only that collateral should be sufficient. Finansinspektionen has issued general guidelines on credit risk, which also do not specify any haircuts.

The Swedish Bankers' Association provides a list of recommended haircuts (in the form of maximum LTV ratios). The main rule is that shares listed on Stockholmsbörsen's A list should incur a haircut of at least 30% when used as collateral and all other quoted shares at least 50%.

Loans collateralised by equity (banks and other credit institutions, securities companies)

Year	Loans collateralised by equity (in billions of SEK)	Stock market value (in billions of SEK)	Loans collateralised by equity/stock market value (in percentages)
1994 December	39	977	3.95
1995 December	27	1,179	2.31
1996 December	24	1,688	1.40
1997 December	29	2,164	1.32
1998 December	34	2,413	1.42
1999 December	44	3,717	1.19
2000 December	49	3,583	1.37
2001 March	47	2,922	1.60

Source: Regulatory reports by the institutions.

Switzerland

As far as we know, there are no guidelines offered by prudential authorities.

United Kingdom

Banks: FSA Guide to Banking Supervisory Policy		
General	DU 2.3 (6)	Exposures collateralised by securities generally attract the risk weight applicable to the security rather than the counterparty
Reverse repos treated as secured lending	NE 8.4(17)	Only eligible collateral - as described in NE 4.3 - is recognised as risk-reducing in secured lending arrangements

Investment firms: SFA Rulebook

Any form of "adequate collateral" may be recognised as risk-reducing, including corporate securities (except those issued by the counterparty or by its associates).

Note: Integrated Prudential Sourcebook (CP97a)

The draft contains a chapter dedicated to the subject of collateral – PRCR6 – that applies to all firms with the exception of PRU category 2 (Insurance undertakings – category 2A: Effecting/carrying out insurance contracts of insurance as principal and 2B – Society of Lloyds). Insurers and friendly societies are covered by the rules on loss mitigation techniques – PRCR10.3.10R.

United States

Yes, there are guidelines on loans collateralised by equity. The percentage of loans advanced against eligible or acceptable accounts receivable typically lies in the range of 75–85%, while the percentage advanced against eligible inventory typically ranges from 35–65%.

8. Are there regulations with respect to share buybacks for non-financial and financial firms? Please provide details.

Australia

For ADI:

APRA's prior approval is required for:

- a reduction in an ADI's capital, including share buyback; redemption, repurchase or repayment of any qualifying Tier 1 and Tier 2 capital instruments issued by the ADI or its subsidiaries;
- an ADI trading in its own shares or capital instruments; or
- aggregate dividend payments that exceed the ADI's current year's earnings.

An ADI proposing a capital reduction needs to provide APRA with a capital plan extending for at least two years. The ADI will need to satisfy APRA, on the basis of the capital plan provided, that the ADI's capital after the proposed reduction will remain adequate for its future needs.

Life insurers:

There are no restrictions on share buybacks provided that the life insurer continues to meet the capital adequacy requirements in its shareholder fund and all of its statutory funds.

General insurers:

There are no restrictions on share buybacks provided capital adequacy requirements are met.

Belgium

Own shares are deducted from capital for capital adequacy purposes.

Canada

The Bank Act, Trust and Loan Companies Act and Insurance Companies Act require that federally regulated financial institutions receive the consent of the Superintendent to purchase, for the purposes of cancellation, any shares issued by it, or redeem any redeemable shares issued by it.

France

Yes. Regulation no 90-04 of the French Securities Commission (COB) sets general provisions relating to share buybacks.

Germany

Share buybacks are regulated in Section 71 ff of the Companies Act. The share buyback programme has to be based on the authorisation - valid for 18 months at most - of the general meeting of the shareholders. The amount must not exceed 10% of the capital of the company. Furthermore, the general meeting has to fix the highest and lowest equivalent value. Trading in own shares is not allowed. Acquisition and disposal are possible via the stock market. The general meeting can decide that the acquisition of own shares is allowed without any further permission of the general meeting.

The company is allowed to buy back shares representing up to 5% of the capital for trading. This limit holds for the end of each trading day. The general meeting has to authorise the acquisition for a period of 18 months at most. The buyback of shares is allowed if it is necessary to avert heavy, imminent damage for the company. The buyback of shares is allowed after authorisation of the general meeting for the reduction of capital stock.

Furthermore, the following sections of the Companies Act (71a, b, c) and the Securities Trading Act (13, 15, 21, 25) apply. They relate - among other things - to disclosure requirements.

Hong Kong SAR

In Hong Kong SAR, a company may purchase its own shares if it can satisfy the requirements stipulated in the Companies Ordinance. Such requirements mainly include:

- the company is authorised by its articles to purchase its own shares;
- the company, if unlisted, may only purchase its own shares under a contract approved in advance. The terms of the proposed contract should be authorised by a special resolution of the company before the contract is entered into;
- the buyback must generally be financed out of distributable profits or the proceeds of a new issue of shares; and
- the shares must be fully paid.

Apart from the relevant requirements in the Companies Ordinance, listed companies should also observe the requirements in the Code on Share Repurchases issued by the Securities and Futures Commission and the Listing Rules issued by the Hong Kong Stock Exchange. The major requirements of the Listing Rules include:

- all repurchases of shares are limited to a maximum of 25% of the trading volume of the preceding month;
- repurchase is prohibited if it would result in the number of listed shares which are in the hands of the public falling below a prescribed minimum percentage required by the Stock Exchange;
- a company shall not knowingly purchase shares from a connected person and vice versa on the Exchange;
- a company may not repurchase its own shares one month immediately preceding the announcement of annual results or the publication of an interim report; and
- a company may not issue or propose an issue of shares for a period of 30 days after any repurchase of its own shares.

Ireland

The prior approval of the Bank is required in respect of any proposals by a credit institution to buy back its own shares to ensure the institution remains compliant with capital adequacy requirements on an ongoing basis.

Italy

Italian law does not prohibit the purchase of own shares, but companies doing so must comply with several conditions, inter alia:

- the purchase cost must not exceed the amount of distributable profits and available reserves shown by the latest approved annual accounts;
- the purchase must be authorised by the shareholders' meeting, which establishes the buyback procedures, indicating the maximum number of shares to be purchased, the duration of the authorisation (not to exceed 18 months), and the minimum and maximum prices;
- the face value of the shares acquired may not exceed one tenth of the company's share capital.[30]

Shares that have been bought back may be cancelled only by resolution of the extraordinary shareholders' meeting to reduce the company's share capital, adopted with the favourable vote of shareholders representing at least one third of the share capital.

The supervisory rules for banks require that own shares held be deducted from core capital (Tier 1).

Japan

Yes.

Before the change of the Commercial Law, which was approved in June 2001 and enforced on 1 October 2001, acquisition and holding of corporations' own shares had been restricted to certain purposes, such as for retirement. After the change, acquisition and holding of own shares for general purposes is allowed, if certain conditions are satisfied.

Netherlands

If an institution buys back its own shares, the amount should be deducted from (preferably) "other reserves". The fact of buying back shares also has to be disclosed. There is no distinction between financial and non-financial firms. A ceiling is imposed on the number of own shares which may be held (10% for N.V. and 50% for B.V.). A buyback of shares must also be permitted in the bylaws of the company.

[30] Shares that have been bought back in violation of the rules set out above must be sold within a year of their purchase, according to the procedures decided by the shareholders' meeting. The obligation to dispose of the shares ceases to obtain where the violation of the limit of 10% of the share capital or the use of funds exceeding profits and available reserves is remedied within the year (eg following a capital increase or as a result of new profits shown in annual accounts approved in the meantime). Otherwise, in the event that the company fails to dispose of shares bought back in violation of the rules indicated above within the year, it must proceed without delay to cancel such shares and reduce the share capital by the corresponding amount.

Spain

For non-financial firms, company law provides that share buybacks by any type of firm must be expressly authorised by the shareholders in a general meeting. Moreover, buybacks are subject to a ceiling of 10% of share capital (5% in the case of listed companies). For credit institutions, share buybacks must be authorised by the supervisory authorities.

Sweden

As of March 2000 it is possible for Swedish public companies whose shares are listed on a stock exchange, authorised marketplace or another regulated market to buy and sell their own shares. Limitations apply; for example, the total holdings of the company's own shares must not exceed 10% of the total number of shares, and the decision to buy or sell must be taken by or authorised by a general meeting of shareholders.

For more detailed information, see Stockholmsbörsens website
www.stockholmsborsen.se/regulations/index.asp?lank=4&lang=eng

Switzerland

There is no distinction in the treatment of financial and non-financial firms in this matter.

The company may acquire its own shares only if freely disposable equity in the amount necessary for this purpose is available and if the total par value of these shares does not exceed 10% of the share capital.

If registered shares are acquired in connection with a restriction of transferability, this limit shall then be increased to a maximum of 20%. Own shares held by the company which exceed 10% of the share capital must be disposed of within two years or cancelled by a reduction of the share capital. (For further detail, refer to the "Aktienrecht" in the Swiss Code of Obligations.)

United Kingdom

Purchase of own securities is dealt with in Chapter 15 of the Listing Rules. In the case of purchases of own equity securities, shareholder authorisation must be obtained and there are regulations governing the manner in which the purchase is effected. See http://www.fsa.gov.uk/ukla/ for further information.

United States

They are considered on a case by case basis. There are also limits on the stocks firms can hold in order for them to remain members of the Federal System.

Section B: Tax policies

Table B.1: Tax treatment of owner-occupied housing

	Acquisition cost payable out of taxed income or deductible	Interest on loan for acquisition payable out of taxed income or deductible	Capital gain taxable or exempt	Imputed rental income taxable or exempt	Income tax rates (for purpose of assessing the effects of interest deductibility)	Wealth tax on housing	Inheritance tax on housing	Remarks / comments
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					Please indicate taxable rates		
AU	T	T	E	E	Not applicable	None	None	
BE[31]	PD (marginal rates) The partial deductibility refers to the capital repayments of mortgage loans. The principal amount of the mortgage loan that is taken into account for calculating the deductible amount of capital repayments is limited. Also, the mortgage loan must	PD (marginal rates) Deductibility in principle limited to imputed rental income. Extra limited deductibility possible under strict conditions (+ degressive over time)	E	T (but exemptions) Based on indexed rateable value set in relation to 1975 assessment. While the rateable value is taken into account for determining the tax base for	Marginal rates 25–55%	The yearly tax on the rateable value (see previous column) can be considered as a wealth tax on housing assets	Yes There is no uniform rate of taxation. Taxation rate varies according to region (Flanders, Wallonia, Brussels), type of heir and amount inherited	Other relevant taxes: • VAT (in principle 21%) applicable to the purchase of newly constructed houses • Registration taxes (in principle

[31] Additional notes: Registration taxes have become a regional (instead of federal) competence. The government of the Flanders region has recently suggested that it is planning to reduce the registration tax and to introduce a "cumulative system", allowing previously paid registration taxes to be deducted from the registration tax to be paid on a subsequent real estate transaction.

Sales of non-owner occupied properties are liable to capital gains tax (16.5% for houses and 33% for land plots), if the property is resold within a period of five years since its acquisition (this rule does not, however, apply to real estate agents). The aim of this rule is to discourage speculative real estate transactions.

	Acquisition cost payable out of taxed income or deductible	Interest on loan for acquisition payable out of taxed income or deductible	Capital gain taxable or exempt	Imputed rental income taxable or exempt	Income tax rates (for purpose of assessing the effects of interest deductibility)	Wealth tax on housing	Inheritance tax on housing	Remarks / comments
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					Please indicate taxable rates		
BE (cont)	have a duration of at least 10 years, and be covered by a life insurance policy			income taxation, the rateable value is also taxed separately every year, (with tax rates being set by the regions, provinces and municipalities)				principle 12.5%, but reduced rate of 6% for "modest" houses): applicable to purchases of land and existing houses (no VAT is due in these cases) • Premiums paid for life insurance policies linked to mortgage loans are partly deductible (under certain conditions)
CA	T	T	E	E	Marginal income tax rates (federal and provincial): range is 22–53%,	None	None	

	Acquisition cost payable out of taxed income or deductible	Interest on loan for acquisition payable out of taxed income or deductible	Capital gain taxable or exempt	Imputed rental income taxable or exempt	Income tax rates (for purpose of assessing the effects of interest deductibility)	Wealth tax on housing	Inheritance tax on housing	Remarks / comments
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					Please indicate taxable rates		
					depending on province and income bracket			
FR	T	T	E If occupied for 5 years	E	2001: marginal rates 8.25–53.25% 2002: marginal rates 7.5–52.75% 2003: marginal rates 7–52.5%	See comments under "Additional remarks" at the end of this section	See comments under "Additional remarks" at the end of this section	
DE	T	T	E	E	Marginal rates 2001: 19.9–48.5% Rates are going to be lowered by 2005 to 15–42%	None	Yes. Tax-free amount up to DEM 600,000 for relatives. Rates depend on degree of relationship and amount of inheritance 7–50%	
HK	Not applicable	D (limited for self-occupation, maximum deduction HKD 100,000 per year in any five years)	E	E	Salary tax is determined on a sliding scale according to a taxpayer's net chargeable income. Tax at progressive rates, 2–17%, is then	None	Yes (subject to estate duty if the total principal value of estate exceeds HKD 7,500,000. The estate duty rate is charged according to a	See comments under "Additional remarks" at the end of this section

	Acquisition cost payable out of taxed income or deductible	**Interest on loan for acquisition payable out of taxed income or deductible**	**Capital gain taxable or exempt**	**Imputed rental income taxable or exempt**	**Income tax rates (for purpose of assessing the effects of interest deductibility)**	**Wealth tax on housing**	**Inheritance tax on housing**	**Remarks / comments**
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					**Please indicate taxable rates**		
HK (cont)					charged on the net chargeable income, subject to not exceeding the 15% standard rate on taxpayer's net assessable income		sliding scale, from 5% to15%)	
IE	T	D At standard rate With limits	E If owner occupier's main residence	E	20% and 42%	None	None[32]	
IT	T	C Only for mortgage; tax credit: 19% on interest paid up to ITL 7 million (hence, maximum tax credit = ITL 1.33 million)	E For sales after five years and in case of residential buildings used as principal dwelling	E Only if residential buildings used as principal dwelling as from 1 January 2000	18–45% (rates for assessment year 2001)	None	Yes Rate: 4–8%, depending on the degree of relationship. Tax-free allowance of ITL 350 million granted to each beneficiary or donee	A draft bill plans to abolish the inheritance tax
JP	T	D (based on the balance of the loan with limits)	E (residence exempt with limits)	E	10–37% (national tax); 5–13% (local tax)	None	Yes At 20% of the value (residence)	

[32] Family residence exempt from probate tax. A gift or inheritance of a dwelling house is exempted under certain conditions from payment of CAT.

	Acquisition cost payable out of taxed income or deductible	**Interest on loan for acquisition payable out of taxed income or deductible**	**Capital gain taxable or exempt**	**Imputed rental income taxable or exempt**	**Income tax rates (for purpose of assessing the effects of interest deductibility)**	**Wealth tax on housing**	**Inheritance tax on housing**	**Remarks / comments**
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					**Please indicate taxable rates**		
NL	T, except for costs related to financing, which are deductible	D marginal rate	E	T	32–52% of taxable income	No	Yes, based on 60% of the value	
ES	D Both the cost of acquisition of housing and the interest on loans for house purchases are deductible from income tax payable, subject to a ceiling of EUR 1,800 per person per annum		E If reinvested in another residence within two years	E	Average rates: 18–48%	Exempt up to a limit of ESP 25 million	No clear answer. Owner occupancy irrelevant	
SE	T	D With limits (see last column)	T	T	30%	Yes	None	If net interest expenses > SEK 100,000, tax reduction 21% (not 30%)
CH	T	D	T/E (depends on the canton)	T	Income tax rates differ from canton to canton and from community to community	The personal income tax is supplemented by a tax on aggregate household wealth. To calculate the wealth tax, total debt may be deducted from total assets	There is no federal tax; its existence depends on the canton	
UK	T	T (PD, subject to limits, prior to	E Principal residence	E	na	None	Yes. Inheritance tax due on house left	Stamp duty of up to 4% of the purchase price,

	Acquisition cost payable out of taxed income or deductible	**Interest on loan for acquisition payable out of taxed income or deductible**	**Capital gain taxable or exempt**	**Imputed rental income taxable or exempt**	**Income tax rates (for purpose of assessing the effects of interest deductibility)**	**Wealth tax on housing**	**Inheritance tax on housing**	**Remarks / comments**
	Deductible at which rate (marginal or another rate)? Is it subject to some limits? Are there other restrictions?					**Please indicate taxable rates**		
UK (cont)		April 2000. The first £30,000 of a mortgage was deductible at individual's marginal tax rate from 1983 to 1991; thereafter the rate of relief was gradually restricted to 10% by 1998, and relief was completely abolished in 2000)	exempt				to a spouse is deferred until the death of the longer-lived spouse	paid by the purchaser (see UK country note for details)
US	T	D	E	E	Marginal income tax	None	No, but they are accounted as assets and subject to inheritance tax on wealth	

Note: D = deductible, E= exempt, T = taxed, C = credit and PD = partly deductible.

Table B.2: Loan provisioning methods

	What is the method used?	Is there conformity on tax and regulatory treatment?
AU	Charge-off method. No deductions are available for provisions for doubtful or bad debts. Deductions are only available for debts which are in respect of monies lent, where the debt arose in the business of money lending and has been written off as bad.	There is no conformity between regulatory and tax treatment.
BE	General provisions for bad debt (including the General Bank Fund and hidden reserves) are not allowed for tax purposes. Specific provisions are allowed with limitations.	There is no conformity between regulatory and tax treatment.
CA	General provisions or reserves are not deductible. Bad debt write-offs and "reasonable" specific provisions for doubtful debts and off-balance sheet items are tax deductible.	There is no conformity between regulatory and tax treatment.
FR	Specific and general provisioning methods. A limited general provision for medium- and long-term credit is also allowed.	General conformity between tax and regulatory accounting.
DE	Specific provisions (write downs, value adjustments) are usually tax deductible. General provisions are tax deductible only to the average rate of several years' losses minus the loan provisions already taken into account by specific provisions. Taxed hidden reserves pursuant to section 340f of the German Commercial code are not tax deductible.	General conformity between tax and regulatory treatment exists.
HK	Specific and general provisions method. General provisions are not tax deductible.	There is no conformity between regulatory and tax treatment.
IE	Specific provisioning method. General provisions are not tax deductible. Tax deductibility of specific provisions is subject to examination of the facts by the tax authority.	General conformity between tax and regulatory accounting exists in relation to specific provisions.
IT	General and specific provisions within an overall limit.	Conformity between tax and regulatory treatment exists, but the part of provisions exceeding 0.6% of total credit amount is deductible over nine years.
JP	The reserve for bad debts under the tax law is one for expected loss in the collection of receivables. The maximum amount deductible as an allowance is the sum of the expected loss of receivables of each category, calculated by the methods shown below: Categories of receivables: amount of expected loss Receivables to be valued individually: the amount expected at the end of the accounting period, calculated by a certain method Receivables of a category, all items of which are to be valued as a single item: the amount calculated by the empirical rate based on the last 3 years' records of bad debt Corporations with capital of no more than JPY 100 million are allowed to choose the option of applying certain statutory rates. The amount credited to the reserve in each accounting period is added back in full to the income in the following accounting period.	General conformity between tax and regulatory treatment exists.

	What is the method used?	Is there conformity on tax and regulatory treatment?
NL	Specific provisions (ie charge-offs) on individual loans or groups of loans. To a limited extent, the value of whole portfolios (eg all mortgage loans) is reduced by an experience-based percentage in order to reflect expected future credit losses. Effectively, this amounts to the creation of a general provision.	There is no conformity between regulatory and tax treatment.
ES	Specific provision covering impaired assets, generic provision covering non-impaired assets and statistical provision designed to cover potential losses estimated through statistical procedures in a similar way to mathematical reserves of insurance companies. This last provision is supposed to produce an acyclical effect on results.	Specific provisions and generic provisions, except when the asset is collateralised, are tax deductible. Statistical provision is not tax deductible although it has a neutral tax effect on the P&L account due to the possibility of credit institutions using an asset account of anticipated taxes.
SE	Specific provisioning is the main method and no provisions can be made for assets where there is no impairment. General provisions can be made for groups of homogeneous claims (eg credit cards). As of 2001 an "interim" general provision can also be made where some impairment is probable in a group of claims with similar credit characteristics but where the individual doubtful claims have not yet been identified.	Currently there is general conformity. However, the new regulations concerning "interim" general provisions (see adjacent column) have not yet been tested in tax court.
CH	General and specific provisions.	General conformity between tax and regulatory treatment exists. All tax deductible provisions must be booked for regulatory purposes.
UK	Specific provisions are made in respect of identified impaired loans. General provisions are made for loans which have not been specifically identified as impaired but which are known from experience to be likely to be present. Provisions cannot be forward-looking – they are only permitted for impairments already existing at the balance sheet date. They are not permitted for loans which at the balance sheet date are subject to no more than normal credit risk.	The FSA has no specific regulatory requirements on provisioning – either on the *levels* of provisions or the *methods* for determining provisions. The only requirement is that banks should file a statement on their provisioning policy with the FSA. In terms of capital adequacy, there are limits on the amount of general provisions eligible as Tier 2 capital under the Basel Accord (1.25% of risk-weighted assets). The Inland Revenue's rules state that specific provisions are tax deductible (provided management has reasonable evidence that the loan is irrecoverable) while general provisions are not. Generally, individual valuation of loans is required for tax purposes. However, for large numbers of small loans (eg credit card loans) the Inland Revenue would allow tax relief on general provisions.
US	Charge-off method. Provisions, either general or specific, are not tax deductible.	There is no conformity between regulatory and tax treatment.

Table B.3: Tax treatment of dividends and capital gains

	Type of corporate tax system	Taxation of dividends	Taxation of capital gains (top personal rate of taxation)
AU	Full imputation	Taxed as ordinary income with a 36% dividend imputation credit for company tax paid, which is creditable against ordinary income tax liability.	Treated as ordinary income. The top personal rate is 48.5%, companies are taxed at 30%, and complying superannuation funds at 15%. Individuals and trusts are only taxed on half their capital gains, and complying superannuation funds on 2/3 of their capital gains. There is no capital gains tax on assets held prior to 1985.
BE	Classical	25% or 15% withholding tax that can be final, according to taxpayer's choice. The 15% tax rate is applied inter alia to dividends from UCITs or publicly quoted shares issued after 1994.	Rate: 0%. Capital gains on securities holdings realised by individuals are in principle not taxable.
CA	Partial imputation	Dividends received from taxable Canadian corporation are "grossed up" by a factor of one quarter and included in income. A tax credit equal to 13.34% of the grossed-up amount is then provided.	Rate: 54.1%. Treated as ordinary income. Capital gains income includes 50% of capital gains, net of capital losses.
FR	Full imputation	Taxed as ordinary income with a 33.33% withholding tax that is always creditable against ordinary income tax liability (see also comments under "Additional remarks" at the end of this section).	Rate: 28%. In all cases, capital gains on securities are taxed at a flat rate of 26%. This comprises the basic rate of 16% plus social surcharges (CSG, CRDS, and Social Levy). (See also comments under "Additional remarks" at the end of this section.)
DE	Up to 2002: split rate with full imputation. From 2002: single rate without imputation.	Up to 2002: taxed as ordinary income with 49.15% creditable withholding tax. From 2002: shareholder relief procedure (Halbeinkünfteverfahren), corporate taxes not creditable, taxation of half of the payout at marginal income tax rate.	Capital gains realised through private transactions of resident individuals are not subject to income tax if holding period of shares exceeded 12 months. If holding period is below 12 months, capital gains are taxed as ordinary income. Top marginal income tax rate 2001: 48.5%.
HK	Classical	Dividends are exempt.	Capital gains are exempt.

	Type of corporate tax system	Taxation of dividends	Taxation of capital gains (top personal rate of taxation)
IE	Classical	Dividend withholding tax – the standard tax rate (20%) is withheld from all Irish dividend payouts. If an individual is not taxable a refund can be claimed. Individual is responsible for paying extra marginal rate top-up (ie 22%) if applicable.	A 20% capital gains tax rate applies to most assets (foreign assurance policies and offshore funds are charged at 40%). The top personal rate of taxation is 42%.
IT	Full imputation	Income tax (rates of 18–45%) with full credit imputation system or 12.5% final withholding tax. On dividends from substantial shareholdings only income tax applies.	Rate: 12.5%. Net capital gains on shares and other securities are subject to a substitute tax (at 12.5% rate) which replaces the individual income tax. For gains on substantial shareholdings, this rate is 27%.
JP	Classical with partial adjustment	Depending on amount of dividend paid by a single company; ordinary income with 20% creditable withholding tax; final withholding tax of 35% or 20% creditable withholding tax.	For listed companies a central rate of 15% augmented by a local rate of 5% applies. Alternatively, if the sale of the asset is trusted to a securities company, a separate withholding tax applies. The national rate of 20% can be applied to 5% of proceeds.
NL	Classical	As of 2001, savings and investments are taxed at a rate of 1.2% (composed of an implied return of 4% and a tax rate on that of 30%). Dividends are subject to a 25% withholding tax, which is fully creditable against the aforementioned tax on savings and investments.	Capital gains realised in the course of a regular business activity are taxed according to income tax rates (see Table B.1) or by corporate tax, depending on the legal status. Capital gains from "substantial interest holdings" are taxed at a rate of 25%. Capital gains realised due to the disposal of securities are exempted.
ES	Partial deduction of dividends paid	Dividends are taxed as unearned income at the marginal rate and with a withholding tax of 18%. There is a deduction for double taxation of dividends for individuals. That is, the 140% of the dividend is treated as income and there is a deduction of 40% from personal income tax payable.	Capital gains made over a period of less than one year are taxed at the marginal rate (0–48%) while those made over more than one year are taxed at the fixed rate of 18%.
SE	Classical	Taxed as capital income (30%).	Rate: 30%. In general, all capital gains realised by an individual are included in the category "income from capital". Income from capital is taxed separately at a flat rate of 30% nationally (no municipal taxes apply).
CH	Classical	Treated as ordinary income: 35% creditable withholding tax.	Rate: 0%. Capital gains are exempt.

	Type of corporate tax system	Taxation of dividends	Taxation of capital gains (top personal rate of taxation)
UK	The UK system now falls somewhere between a classical and an imputation system, and could perhaps be described as a type of shareholder relief scheme. Since 1999, tax rates paid on dividend income have been lowered (to 10% and 32.5%, compared to 20% and 40% previously). The dividend tax credit has also fallen, from 20% in 1999 to 10%, leaving taxpaying shareholders largely unaffected by the change. At the same time, the dividend tax credit became non-refundable to non-taxpayers, although dividends paid into tax-exempt equity savings vehicles (Individual Savings Accounts) receive payment of the credit for five years (from 1999). Pension funds and other tax-exempt corporate shareholders, such as the pension business of insurance companies, had payment of the credit withdrawn earlier, in July 1997. This type of system could be categorised in several ways. It could be described as a classical system with reduced rates of tax on dividend income, or a shareholder relief scheme, but removing the refundable aspect of the dividend tax credit makes it a partial imputation system only for taxpaying shareholders, not for all shareholders. But if the French and Canadian systems do not refund the dividend credit, and are still described as imputation systems in this table, the UK can also be described as such.	Taxed as ordinary income, grossed up by a dividend tax credit of 10%. This is creditable against the tax due on dividend income, currently charged at rates of 10% (for basic and lower-rate taxpayers) and 32.5% for higher-rate taxpayers.	Rate: 12–40%. Capital gains are charged at varying rates according to the holding period before sale of the security and the individual's marginal tax rate on savings income. An annual tax-free allowance is granted at GBP 7,200 for 2000-01.
US	Classical.	Taxed as ordinary gross income.	Rate: 20%. As of 1998, the highest capital gains rate is generally 20%.

Supplementary questions on the role of tax policies

1. What is the tax treatment for firms with respect to share buybacks? Are these expenses deductible for tax purposes?

Australia

There are generally no income tax or CGT consequences in respect of a share buyback. This is the case regardless of whether the buyback is on-market or off-market. However, in the case of an off-market buyback, a franking debit may arise in the company's franking account to the extent that the purchase price is taken to be a dividend. No amount from the buyback is assessable or deductible to the company.

Belgium

The deductibility is only partial. In principle, the difference between the price paid for the shares and the paid-up capital they represent is considered as a payment of dividends (and therefore taxed), although there are some exceptions.

Canada

In general, amounts incurred by a corporation to issue or buy back its capital stock are non-deductible capital expenditures. However, paragraph 20(1)(e) of the Income Tax Law provides a deduction – to be spread over five years – for expenses incurred with respect to the issuance of shares of the corporation.

France

The tax treatment for firms with respect to share buybacks defined by Law no 98-548 of 2 July 2000, according to which share buy-backs are generally treated as standard income distribution. However, in some particular cases (when firms buy back shares from their employees or when it is part of a share buyback plan), share buybacks are treated as capital gains.

These expenses generally are not deductible for tax purposes, except in some particular cases: when buybacks are proportional to associates' rights; when proportional buybacks deal with shares that give rights to specific fiscal treatments.

Germany

Only shares which may be capitalised after buyback can give rise to tax deductions; expenses for shares which may not be capitalised are not allowed to influence the tax burden. (See Bundessteuerblatt 1998, p 1509 ff: Steuerrechtliche Behandlung des Erwerbs eigener Aktien, BMF IV C 6-S2741-12/98.)

Hong Kong SAR

It depends on whether the share buybacks constitute a trade or trade-like venture. If they do, gains are taxable while expenses are deductible. If they do not, gains are not taxable while expenses are not deductible.

Ireland

As share buybacks are not regarded as an income expense of the firm, expenses incurred in the process are not deductible for tax purposes.

Italy

There is no special tax treatment for firms with respect to share buybacks.

If a firm holds its own shares, these can be:

a) sold. In this case, capital gains on its own shares are treated like those on other shares (see answer to Question 2 below, subsection B);
b) used to reduce the capital stock. In this case, there are neither capital gains nor capital losses, because the difference between the cost of its own shares and the equivalent part of the net worth augments (or reduces) capital reserves.

The cost of its own shares is not deductible for tax purposes; realised and unrealised capital losses are deductible from taxable income.

Japan

Before the change of the Commercial Law, which was approved in June 2001 and enforced on 1 October 2001, acquisition and holding of corporations' own shares had been restricted to certain purposes, such as retirement. After the change, acquisition and holding of own shares for general purposes have been allowed, and the following tax rules have been set accordingly.

<u>For shareholders</u>
Following the change of the Commercial Law, rules similar to those applied to share buybacks for retirement purposes are now applied to share buybacks in general as follows:

1. In principle, the portion of the value that can be regarded as distribution of the corporation's profits out of values paid by corporations to their shareholders is taxed as dividends.
2. In the case of listed companies acquiring their own shares at stock markets or from individual investors, the income of the investors who sell the shares is not regarded as dividends, but as capital gains, and is taxable accordingly.

<u>For corporations</u>
Expenditures of corporations that acquire their own shares are, in principle, not tax deductible, since expenditures required for purchasing own shares, such as commission fees for the purchase, constitute part of the acquisition values of those shares.

Netherlands

The excess of the purchase price over the average capital attributable to shares is considered as a distribution of profits, on which firms should in principle levy a 25% withholding dividend tax. However, firms listed on the stock market may refrain from this withholding tax under certain conditions. The expenses involved in share buybacks are not deductible for tax purposes.

Spain

Capital gains or losses arising from the sale and purchase of own shares are subject to corporate income tax like any other business or financial activity. The expenses of share buybacks are effectively deductible, as the expenses incurred in the purchase and sale are added to the purchase value and deducted from the sale value, respectively.

Sweden

The tax treatment of share buybacks follows the general rule applicable for shares owned by firms, ie no deduction for expenses and gains/losses on acquired shares are taxed as ordinary income.

Switzerland

With respect to share buybacks, the difference between the purchase price and the nominal value of these holdings will be taxed at the rate of 35%.

United Kingdom

In general, that part of the sale price that exceeds the repayment of capital is treated as a distribution. Prior to 1999, this meant that the company purchasing its own shares had to account for advance corporation tax (ACT) on the amount of the distribution. Since the abolition of ACT in April 1999, this is no longer the case.

The distribution element is taxable in the hands of an individual shareholder as income, and is accompanied by a tax credit. In the hands of a shareholder company, the distribution is treated as part of the total amount received on disposal of the shares and taxed as a chargeable gain. The repurchased shares are cancelled by the originating company and do not generate any chargeable gain or loss.

Legal and other expenses incurred by a company in purchasing its own shares are considered to be capital expenditure (part of the cost of changing the share capital of the company) and so are not deductible for tax purposes.

United States

No.

2. What is the corporate/business tax treatment with respect to unrealised and realised capital gains on equity and property? For example, would realised capital gains be treated as income and taxed at the corporate/business tax rate?

Australia

Australia's taxation system generally does not differentiate between different types of capital gains accruing to businesses. Capital gains which arise through the sale of shares are taxed at the same rate as capital gains earned from the sale of property.

Companies are taxed at 30% on all assessable income, including capital gains.

Australia's taxation system does not impose any tax on unrealised gains. Australia's capital gains regime is realisation based. No tax is paid until the gain is realised.

Belgium

Corporate tax treatment of realised capital gains on equity holdings: no capital gains tax if corporation is liable to corporate taxation and if equity participation is higher than 5% of total equity or higher than BEF 50 million. In the other cases there is full taxation.

Realised capital gains by corporates on real estate are also fully taxed.

Canada

50% of realised capital gains constitute a taxable capital gain, which is included in the corporation's income and taxed at ordinary corporate rates. Corporations are generally not taxed on unrealised capital gains. The exception would be the trading operations of financial firms who would mark to market their securities holdings and report unrealised gains and losses in taxable income.

France

See below (additional remarks on Table B.3).

Germany

Realised gains are taxed at the corporate rate. Unrealised gains are not considered as income and are not taxed.

Hong Kong SAR

Capital gains are not chargeable to tax.

Ireland

As a general rule, only realised capital gains are subject to tax. While the method of computation of capital gains tax differs for companies, the effective capital gains tax rate is the same for firms as for other individuals, ie 20%.

Italy

A) Property

Corporation tax (Imposta sul Reddito delle Persone Giuridiche – IRPEG):

Realised capital gains on property are taxed in their entirety at the ordinary tax rate (36%; 35% as from tax year 2003). If property is held for at least three years, capital gains may be taxed in equal instalments for the current and following tax years, but not beyond the fourth.
Unrealised capital gains on property (eg, due to revaluation) are not taxed.

Regional tax on productive activities (Imposta Regionale sulle Attività Produttive – IRAP):

Capital gains on property are taxed if realised during ordinary business activity.
Tax rate is 4.25%. Tax rate for banks and financial intermediaries is 5% for tax year 2001, 4.75% for 2002 and 4.25% (standard basic rate) thereafter.

B) Equity investment

Corporation tax (Imposta sul Reddito delle Persone Giuridiche – IRPEG):

Capital gains on shares and other participations are subject to IRPEG as business income when realised. The tax is applied at the ordinary rate of 36% (35% as from tax year 2003).
Capital gains are taxed for their entire amount in the tax year of realisation. However, if the shareholdings have been classified as "capital assets" in the latest three balance sheets, the gains can be taxed either entirely in the tax year of realisation or in equal instalments in the year of realisation and in the following years, but not beyond the fourth year.

Gains arising from substantial shareholdings[33] can be taxed at the reduced rate of 19% (substitute tax) provided the shareholding has been classified as "capital assets" in the latest three balance sheets.[34]
Gains arising from the evaluation of substantial shareholdings according to the equity method are not taxed.
Accrued gains arising from the evaluation of the shares at the end of the year are taxed only if the shareholding is not classified as "capital asset" in the business balance sheet. The gain is equal to the difference between the market value of the shares and their acquisition price.

Regional tax on productive activities (Imposta Regionale sulle Attività Produttive – IRAP):

For business tax purposes, capital gains arising from shareholdings are treated as follows:

a) commercial or industrial companies: capital gains arising from shares are not subject to IRAP;
b) banks and financial intermediaries: IRAP applies either to realised capital gains or to gains arising from evaluation. However, gains arising from shares classified as "capital assets" in the balance sheet are not taxed.

Japan

Realised capital gains on shares or real estate such as land and buildings are taxable at basic corporate tax rates.

Unrealised capital gains from shares or real estate such as land and buildings are not taxable, though evaluated profits from securities held for dealing purposes are taxable.
Evaluated profits from securities held for dealing purposes that are measured by mark-to-market methods are, in principle, taxable at basic corporate tax rates.

[33] Shareholding "participations" are deemed to be substantial if the seller holds at least 20% of the voting power (10% in the case of listed companies).

[34] Of course, the company will choose ordinary taxation at the general rate of 36% when there are losses which can be offset against the gains, so that the effective final rate is less than 19%.

Netherlands

Realised capital gains are in principle treated as income and taxed at the income or corporate tax rate, depending on the legal structure of the business (see Table B.2). Unrealised capital gains are in principle not taxed. Capital gains realised due to the sale of capital equipment may under certain conditions be used to create a reinvestment reserve. For capital gains on shares, the participation exemption may under circumstances apply.

Spain

In general, capital gains actually realised on shares and property are added in their entirety to the tax base for the corporate income tax, which is charged at a rate of 35%. At the same time, the principle of prudence in valuations means that unrealised capital gains are not subject to this tax.

Sweden

Capital gains on equity (= shares) and property are taxed at realisation as ordinary business income (with the statutory tax of 28%). Losses on ordinary shares (ie not shares held for business purposes) cannot be offset against ordinary income but only against future gains on shares.

Switzerland

Realised capital gains on equity and property are taxable at the corporate/business level. There is federal as well as cantonal taxation. No further detail can be provided.

United Kingdom

Unrealised gains are not taxable; realised gains are currently treated as income and taxed at the company's corporate tax rate (at the main rate of 30% or lower rates of 10%or 20%, according to the amount of taxable profits earned). Chargeable gains may be reduced by an indexation relief, although they are not subject to the taper relief applied to individual's capital gains. A number of special provisions apply, including for groups of companies, unit and investment trusts, life insurance companies and disposals of interests in a UK oilfield.

HM Treasury is currently committed to amending the tax treatment of the disposal of substantial shareholdings by companies, and has suggested exempting these gains from tax, in preference to deferring any gains. For details of the suggested approach, see http://hm-treasury.gov.uk/pdf/2001/large_bus_tax.pdf.

United States

Yes. A corporation can use capital losses for a tax year only to offset capital gains in that year. There is no offset against ordinary income for a corporation. A corporation may carry back unused capital losses to the three preceding tax years and to carry over losses to the five following tax years.

Additional remarks

France

Table B.1:

Income tax rates (for purposes for assessing the effects of interest deductibility):
2001: marginal rates 8.25–53.25%
2002: marginal rates 7.5–52.75%
2003: marginal rates 7–52.5%.

Wealth tax on housing:
Usually none, except for some real estate liable to wealth tax ("Impôt sur la Fortune" or ISF). Tax rates are 0.55–1.8% for properties above FRF 4,700,000, according to the following table:

Value of net taxable wealth	Rate (%)
< FRF 4,700,000	0.00
FRF 4,700,000 to FRF 7,640,000	0.55
FRF 7,640,001 to FRF 15,160,000	0.75
FRF 15,160,001 to FRF 23,540,000	1.00
FRF 23,540,001 to FRF 45,580,000	1.30
FRF 45,580,001 to FRF 100,000,000	1.65
> FRF 100,000,000	1.80

Inheritance tax on housing:
The system of inheritance tax on housing is fairly complicated: taxes vary in proportion to the inheritance, depending on the estimated value of real estates and the degree of kinship, less standard abatement of the levy.
For example, tax rates are:

- For the direct descendants:
  - 5% for an estimated value of the inheritance ranging from nought to FRF 50,000
  - 10% from FRF 50,000 to FRF 75,000
  - 15% from FRF 75,000 to FRF 100,000
  - 20% from FRF 100,000 to FRF 3,400,000
  - 30% from FRF 3,400,000 to FRF 5,600,000
  - 35% from FRF 5,600,000 to FRF 11,200,000
  - 40% above FRF 11,200,000.

- For the husband/wife:
  - 5% for an estimated value of the inheritance ranging from nought to FRF 50,000
  - 10% from FRF 50,000 to FRF 100,000
  - 15% from FRF 100,000 to FRF 200,000
  - 20% from FRF 200,000 to FRF 3,400,000
  - 30% from FRF 3,400,000 to FRF 5,600,000
  - 35% from FRF 5,600,000 to FRF 11,200,000
  - 40% above FRF 11,200,000.

- For the brother and sister:
  - 35% from nought to FRF 150,000
  - 45% above FRF 150,000.

- Up to the 4th degree of kinship: 55%.

- In all other cases: 60%.

Standard abatement of the levy for settlements: 50% when the donor is less than 65 years old, 30% when the donor is more than 65 and less than 75 years old.

Table B.3:

Taxation of dividends: taxed as ordinary income with a 33 1/3% withholding tax that is always creditable against ordinary income tax liability. Dividends are part of the taxable benefits of the firm and the standard rate of 33 1/3% is implemented. However, this does not apply to dividends provided by subsidiary companies in which the firm holds more than 10% of the authorised capital.

Taxation of capital gains (top personal rate of taxation): standard income tax rates apply to short-term capital gains (<2 years). The tax rate for long-term capital gains is 26%, that is the minimum rate (16%) + social taxes (CSG 7.5%, CRDS 0.5%, social levy 2%). For individuals, capital gains are taxed when cumulated securities sales over the year exceed FRF 50,000.

Hong Kong SAR

1. With regard to Table B.1, the basic principles governing the granting of a deduction for home loan interest are as follows:

- the interest is paid in the year of assessment
- the deduction allowed cannot exceed the interest paid in the year, with HKD $100,000 as the maximum deduction
- the maximum deduction is apportioned for co-owned properties
- the dwelling must be a qualifying dwelling situated in Hong Kong SAR, used by the person as his or her place of residence
- the loan was granted to finance the acquisition of the dwelling, secured by a mortgage or charge over a Hong Kong SAR property
- the lender is an approved body
- the person has not been granted a deduction in five or more previous years of assessment

Section C: Information and disclosure policies

Table C.1: Sources, frequency and time lag of price information available to investors: houses and non-residential structures (Questions 1a, 1b and 2, Section C)

	At the national level	At the local level
AU	*Houses* Data are available from a number of sources, including: the Australian Bureau of Statistics, Real Estate Institute of Australia, and CBA/HIA. These data are available quarterly, 6–12 weeks after the end of the quarter (depending on the data source). *Non-residential structures* Data are available from the Australian Bureau of Statistics on a quarterly basis. The ABS data are released two months after the end of the quarter. An alternative data source is Jones Lang Lasalle, who provide quarterly data with a 6-week lag.	Data on actual sales are available on a weekly basis in local newspapers, and are readily available to potential buyers and sellers. More comprehensive data are available from REIA and CBA/HIA.
BE	Once a year, the National Institute of Statistics (NIS) publishes a booklet with the general results of the secondary market (sales subject to registration duty). Different types of real estate are grouped and the most detailed information is to be found at community level, with private sales and public auction grouped together. More detailed information - but hardly detailed enough for valuation purposes - can be obtained from the NIS. Once a year, a private sector company also issues a "value of real estate" booklet, which gives value indices for residential real estate - based on data provided by notaries - and some more detailed general information. For small and medium-sized houses, Stadim also issues a quarterly publication. The time lag for both sources is more than 1 year.	Individual results are hard to come by. There are different databases (held privately or by federations) which are, however, only open to the owner of the database or members of the federation in question.
CA	*Houses* The Canadian Real Estate Association is the main source for existing home price data. Average prices for homes sold each month are available for groupings of both 25 and 80 major markets in Canada. Note, however, that these estimates of average prices can be seriously affected by weight shifts in sales volumes, for instance between low-priced and high-priced dwellings. Royal LePage Inc also publishes a quarterly survey of average house prices at the national level for three housing types: detached bungalows, standard two-storey homes and standard condominiums. Statistics Canada publishes a monthly new housing price index at the national level, based on contractors' selling prices of new residential homes. *Non-residential structures* Russell Inc publishes a quarterly index of property values for the following property types: apartment, hotel, industrial, mixed use, office and retail.	The Canadian Real Estate Association is a source of existing home price data, showing average prices for homes sold each month for 80 in major markets. Again, these data can be seriously affected by weight shifts in sales volumes. In addition, Royal LePage Inc publishes a quarterly survey of house prices for more than 250 neighbourhoods. Current market values for seven housing types are available, based on Royal LePage opinions of fair market value in each location. Statistics Canada also publishes a monthly new housing price index for 22 major metropolitan areas, based on contractors' selling prices of new residential homes.
FR	Annual survey carried out by the *Ministère de l'Équipement* which provides price information for new houses; Annual publication by BOURDAIS for new houses and flats; Biannual publication by FNAIM, a professional union for institutional sellers, which provide price information for houses and flats; Quarterly price index provided by the INSEE and the Chambre des Notaires de Paris (website http://paris.notaire.fr).	Information is provided on a daily or weekly basis through various sources, such as private advertisements in local newspapers, by lawyers or solicitors who publish their own information generally on a monthly basis, and via estate agencies.
DE	Ring Deutscher Makler (RDM), Bullwin & Partner (yearly, average prices of houses sold, not a true index), published with a lag of several months.	Same sources and frequency as for the national level, geographical breakdown available. Information from RDM available on the internet, from Bullwin & Partner at relatively low cost.
HK	*Houses* The Rating and Valuation Department (Hong Kong SAR Government)	Information on average transaction prices by broad district and floor area group is available

	publishes monthly average transaction prices for private residential properties with a time lag of 5-6 weeks. *Non-residential structures* The Rating and Valuation Department publishes monthly average transaction prices for offices, retail shops and flatted factories with a time lag of 8–9 weeks.	from the Rating and Valuation Department with a lag of around two months. Information is posted on the website of the Rating and Valuation Department. The public can access to the information free of charge.
IE	*Houses* Department of the Environment and Local Government, Housing Statistics Bulletin. Quarterly and annual publication. Time lag 3–4 months. Prices are simple averages and are derived from data supplied by the mortgage lending agencies on loans approved by them. The Irish Permanent House Price Index. Monthly publication. Time lag 1–2 weeks. This is a hedonic/mix-adjusted price index. The data are based on residential mortgages approved by the Irish Permanent, which accounts for approximately 20% of residential mortgage purchases. *Non-residential structures* The Jones Lang LaSalle Index. Published quarterly. Time lag 1 month. Based on a notional portfolio of real properties with a lag of 1 month. The series provided is a capital value index, which is defined as the value of an asset as distinct from its annual or periodic (rental) value. The series are provided for office, retail and industrial units.	The Department of the Environment and Local Government, Housing Statistics Bulletin publishes a country-wide price series as well as series for each of the 5 main cities and a series for other areas. This information is available quarterly and annually, and access is relatively easy and low-cost. On a more localised level (eg town or village), price information/guidelines may be available on individual properties/areas from estate agents.
IT	na	na
NL	*Houses* Monthly averages published by national association of real estate agents (NVM) and the land register ("kadaster"). *Non-residential structures* Median prices are published twice a year by the national association of real estate agents. Published via internet and press. Time lag varies between 1 and 6 months, because the published median price is based on average between t-7 and t-1 months.	With respect to houses for sale and sold through agents, ask and (final) sale prices at any level (local or country) can be obtained, against payment, from the national association of real estate agents (50% of the market). Information on the final sale price at local level or concerning a specific house can be obtained, against payment, from the land register ("kadaster"). Time lags are short.
ES	*Houses* The main sources of information are valuations undertaken by appraisal companies. The Bank of Spain monitors these institutions' compliance with the legal criteria required for developing their activities. Information on house prices provided by a sample of these companies is regularly compiled by the Ministry of Public Works and released in its publications and on its website. The frequency of this information is quarterly and is disclosed with a lag of about two or three months. In addition the Bank of Spain publishes annual information on house prices based on valuations by all appraisal companies in its Economic Bulletin. *Non-residential structures* Information on non-residential structures is scarce and less readily available. In the aforementioned statistics published by the Bank of Spain, there is annual information on nationwide price developments in the non-residential property market.	Statistics released by the Ministry of Public Works contain detailed information for Spanish cities and big villages. Also, in some big cities such as Madrid and Barcelona information on house prices by neighbourhood is frequently released in newspapers, some of which include regular supplements on developments in the real state market. The providers of this information are usually market research firms.
SE	*Houses* Based on information from Lantmäteriet (formerly Nation Land Survey), Statistic Sweden reports monthly price information on houses with a time lag of up to 1 month. This information is free of charge and available on its website. *Non-residential structures* Statistic Sweden also reports about other types of real estate such as commercial real estate. However, the amount of transactions for this kind of property is relatively low every month and one would therefore use at least quartile, semiannual or annual figures. The time lag is about 2 months and the cost is low.	Monthly price information on houses at the county and national level is reported free of charge by Statistic Sweden. Price information at community level is free of charge and easily available annually. It is possible to obtain monthly data for the local and city-wide level but for a small fee. In addition, it is available free from Mäklarsamfundet, the association of estate agents. House price information at the local level is also often reported in newspapers.
CH	*Houses* Wüest & Partner provides quarterly price indices.	A quarterly price index is available at the regional level only. Access to this information is easy

	Non-residential structures Information is given in the federal statistical yearbook (annual).	(internet).
UK	*Houses* Nationwide house price index: provided by Nationwide on a monthly basis, within a couple of days of the end of the month. Halifax house price index: provided by Halifax on a monthly basis, within a week of the end of the month. Department of Transport, Local Government and the Regions: provided by the DTLR (a government body, previously the Department of the Environment, Transport and the Regions (DETR)). Available quarterly with a three-month delay. Royal Institution of Chartered Surveyors (RICS): monthly, provided with a three-week delay. HM Land Registry: the Land Registry provides house price data based on quarterly average growth on one quarter year earlier. Available with a 6-week delay. *Non-residential structures* Investment Property Databank: monthly growth rates of rental values and capital values, published on 10th working day after month-end. The sample changes, but currently covers between 2,500 and 3,000 properties, with a combined value of around GBP 11 billion. Insignia Richard Ellis: Monthly growth rates of rental values and capital values, published on 5th working day after month-end. The sample currently covers 281 properties, with a combined value of £2.5 billion.	Halifax and Nationwide: Both the Nationwide and Halifax indices provide data at a regional level, available from the same sources within the same time period. HM Land Registry's website provides house price data for counties or unitary authorities. This is calculated in the same way as in the previous question. Data are not available at a more disaggregated level.
US	*Houses* The OFHEO (Office of Federal Housing Enterprise Oversight) provides monthly data on the house price index known as HPI. The time lag is 1 month. *Non-residential structures* BEA (Bureau of Economic Analysis) provides quarterly data on non-residential structures with one-quarter lag.	County records are the main source of price information on houses at the local level. They are easily available to potential buyers/sellers.

Table C.2: Availability and regulation of information on bid and ask prices of houses at the local level (Questions 3 and 4, Section C)

	Availability of information on bid-ask prices	Regulation on disclosure of bid prices
AU	The ask prices of houses for sale are publicly available. However, when houses are for auction, the reserve price is confidential. Successful bid prices at auction are publicly available on a weekly basis in local newspapers.	None
BE	Results of public auctions are published on a regular basis by some chambers of notaries and occasionally in the public press.	None
CA	Ask prices on specific residential properties are readily available in "real time" through either the Multiple Listing Service On-line or Royal LePage web sites. Data on bid prices are not readily available, aside from informal sources (news reports, realtors, etc).	None
FR	Bid prices are not available; ask prices are available but reserve prices are not.	None
DE	None.	None
HK	Only average transaction prices are available. Potential buyers/sellers can obtain bid-ask prices for individual properties from their real estate agents. Some real estate agents post ask prices of selected properties on their websites. The public can access the information free of charge.	None
IE	Information on bid prices is not available. Ask prices of individual houses may be gathered from newspapers or estate agents.	None
IT	na	na
NL	Ask prices of houses for sale and sold through agents can be obtained. at any level (local or country), against payment, from the national association of real estate agents (50% of the market). Bid prices are not registered or published.	None
ES	Bid and ask prices are contained in individual advertisements for house purchasing or selling in local newspapers, but there are no statistics available on this.	None
SE	None.	None
CH	Information is publicly available (eg on the internet), but only in the form of an index based on ask prices.	None
UK	None.	None
US	Not usually.	None

Table C.3: Sources, frequency and time lag of price information available to investors: stocks/equities (Questions 1c and 5, Section C)

	Price information at the national level	Bid-ask prices
AU	Data are available from a number of sources, including specialised data providers such as Bloomberg and Reuters, newspapers and electronic media. Data are available on a daily basis for both individual stocks and market indices, and are in real time for electronic sources and a day later in the print media.	Bid and ask prices for stocks/equities are publicly available in real time with at least a 20-minute delay from the Australian Stock Exchange website.
BE	Real-time price information on stocks/equities is available to those investors subscribing to products sold by vendors selling this real-time information (Reuters, Bloomberg). In addition, relatively up-to-date price information (time lag of about 15 minutes) can be accessed through the internet, free of charge.	Real-time availability.
CA	The Bank of Canada Banking and Financial Statistics gives time series of monthly data on major Canadian stock market exchange indices and subindices with roughly a one-month lag. More frequent data (not necessarily on a time series basis) with various time lags (including real-time for the more expensive services) are provided by the major financial journals and news services, finance websites and a range of commercial services.	The information is available from various information services in real time (for a fee).
FR	Information is easily available and provided directly by brokers, banks or financial institutions and financial newspapers on a daily basis.	This kind of information is provided by brokers or directly by stock markets as in every financial place.
DE	Stock exchange, data provider services (real-time or tick data). There is no time lag.	Daily information on bid and ask prices published in the Börsenamtsblatt as required by the Börsenordnung. Time lag one day. Real-time data for traders on electronic trading platforms or with data provision services subject to fees.
HK	Most newspapers carry daily stock prices of the previous trading day. Customers can obtain current price information from their brokers, the terminals at banks and brokerage houses, or through their on line trading accounts. There are several financial information services websites that provide real-time snapshot quote services to subscribers; some of them are free of charge, and some ask for a nominal fee. Current price quotes can also be obtained through subscription to the financial data services offered by mobile pagers and cellular phones. Minute-by-minute price information for the current trading day is available free of charge from the Hong Kong Exchanges and Clearing Limited website with 60 minutes delay. It also has historical daily stock prices for 12 months. Relatively more expensive financial service providers such as Bloomberg and Reuters, which provide reliable real-time services on pricing, trading statistics and financial market information, are available and mainly used by institutions and professional traders. Historical 30-second snapshot price data are available from Hong Kong Exchanges and Clearing Limited at a fee with about a 2-month time lag (applies also to bid-ask prices).	Information is publicly available on bid and ask prices of stocks/equities. Customers can obtain up-to-date bid and ask price information from their brokers, the terminals at banks and brokerage houses, or through their online trading accounts. There are several financial information services websites that provide real-time snapshot bid and ask prices to subscribers; some of them are free of charge, and some ask for a nominal fee.
IE	Irish Equity and ISEQ Index data are disseminated from the Deutsche Börse in Frankfurt via the Consolidated Exchange Feed (CEF); (both real-time and delayed). Irish Stock Exchange website provides snapshot prices 6 times per day. Irish Stock Exchange daily publication (Daily Official List) details all transactions.	Bid-offer information for equities is available through the CEF. Details of closing best bid and offer are published daily in the Daily Official List.
IT	Borsa Italiana (Italian Stock Exchange). Daily data available at the national level with one-day time lag. The stock exchange website provides free of charge some intraday data with a few minutes'	The Italian equity market (including derivatives) has a high degree of order flow transparency. Shares are traded on a single electronic platform on a continuous

	delay for the main stocks traded.	time auction trading system, with full access to the order book available to the traders. For more details see *Italian Stock Exchange Facts and Figures*, Borsa Italiana (2000).
NL	Various sources; continuous; real-time (against payment), 15 minutes' delay (free); (price information is sold by the stock exchange to data vendors).	Available for free with 15 minutes' delay. Real-time information is sold at varying commercial rates.
ES	Madrid Stock Exchange releases fairly detailed information on stock price indices which is also disseminated by financial institutions and other market participants.	Stock exchanges provide the best 5 bid and ask prices for shares and the intermediaries quoting them. Available in real time while markets are open.
SE	Stockholmsbörsen provides free information on listed share prices with 15 minutes' delay.	Free information on bid and ask prices available from Stockholmsbörsen with a delay of 15 minutes. Several banks and stock agencies provide private persons with access to the stock market (with 1-minute time lag) via the Internet for a small fee.
CH	Information is given on a daily basis by different sources (Reuters, etc).	Information on bid and ask prices is publicly available without any time lag.
UK	London Stock Exchange: current stock price available on its website, with a 15-minute delay. Live quotes available if member of the exchange.	Information on bid-ask prices for UK equities is available real-time from the respective exchanges (London Stock Exchange and virt-x) and a variety of third-party data vendors (such as Reuters) at a cost. There is, however, publicly accessible information provided with a delay on the exchanges' websites. The LSE provides free information with at least a 15-minute delay on its website; and the virt-x website has a 30-minute delay. Purchased information is also supplied with varying timeliness: real-time (streaming or static) or historical (greater than a 15-minute delay). The information available from the LSE (with at least a 15-minute delay) covers: current bid/ offer price; the last five trades (volume, price and time); and the result of the opening/closing auction. The information available from virt-x (with a 30-minute delay) includes a view of the order book showing up to 5 bids/offers and their respective volume. The more general quote information also includes the bid/offer price.
US	Daily information is available on stocks/equities with no lag from multiple sources.	Available. There is no lag on such information.

Table C.4: Public disclosure requirements for public, non-financial companies (Question 6, Section C)

	Financial reporting guidelines	Availability	Selective disclosure
AU	Public non-financial companies must prepare annual and half-yearly financial statements, which include a balance sheet, profit and loss statement, and a cash flow statement. Public non-financial companies are also required by the Australian Stock Exchange to undertake continuous disclosure of information which would be expected to have a material effect on the price of the entity's securities. The statements must comply with the Australian Accounting Standards, which require detailed notes to the financial statements.	The annual statements must be lodged with the regulator, the Australian Securities and Investments Commission, and be circulated to shareholders. Half-yearly financial statements must also be prepared, but do not have to be circulated to shareholders. Many Australian public non-financial companies provide electronic copies of their financial statements on their websites. The Australian Stock Exchange provides edited versions of continuous disclosure announcements by companies on its website.	Selective disclosure is illegal if it breaches the ASIC and ASX continuous disclosure requirements.
BE	Listed companies are required to publish half-yearly reports.	Available to the public.	na
CA	Quarterly unaudited financial statements and an audited annual report to shareholders are required. The reporting must comply with Canadian GAAP.	The information is available to the public.	No selective disclosure is allowed. However, there has been controversy over companies hosting conference calls at the time of release for selected analysts. More recently, the practice has been to allow anyone to listen in on these conference calls/webcasts.
FR	Public non-financial companies are requested to provide the fiscal administration with an annual balance sheet and a profit and loss account once a year. Shareholders may ask questions during the annual general meeting and, if owning more than 10% of the capital, may question the chairman about any point which could jeopardise the company. Quoted companies have to publish semiannual accounts and quarterly turnover. This information has to be accessible to the public.	Accounting information is available to anybody through connections to official free-charging sites (Infogreffe, INPI). The Bank of France can also get accounting information about firms in collaboration with banks or accountants, but on a voluntary basis. At the request of these firms, this data bank can be used for financial analysis and sold to commercial banks only.	Quoted companies are obliged to inform the public about any event which can have an effect on the price of shares (profit warnings).
DE	Handelsgesetzbuch (German Commercial Code), Börsenzulassungsverordnung (Ordinance regulating Listing Particulars), guidelines of the Deutsches Rechnungslegungs Standard Committee (German Accounting Standard Committee GASC). In addition, according to market segment: • Freiverkehr (Regulated Unofficial Trading): no follow-up obligations • Geregelter Markt (Regulated Market), amtlicher Handel (official trading): yearly financial statements (including income statement and reserves/ provisions for contingencies or anticipated losses), half-yearly report, ad hoc announcements. • DAX, MDAX: yearly financial statements, quarterly reports, ad hoc announcements subject to German Accounting Standards. No reporting requirements about loan loss provisions and non-	Available to the public.	Disclosure requirements must be made available to the public. Additional disclosure to selected stock market analysts is not customary.

	performing loans. • Neuer Markt, yearly financial statements, quarterly reports, ad hoc announcements subject to International Accounting Standards. IAS includes reporting requirements about loan loss provisions and non-performing loans.		
HK	A publicly listed company must prepare a full set of financial statements on an annual basis. These financial statements, or annual accounts, include balance sheet, income statement, cash flow statement and statement of movements in equity with comparative figures for the corresponding previous period and accounting policies and explanatory notes. The annual accounts are required to conform with either the Statements of Standard Accounting Practice (HK SSAP) issued by the Hong Kong Society of Accountants; or the International Accounting Standards (IAS) promulgated by the International Accounting Standards Committee (if companies adopt IAS, they are required to disclose and explain differences of accounting practice between IAS and HK SSAP and to compile a statement of the financial effect of any material differences). The financial statements must be audited.	The company must distribute to its shareholders and the Stock Exchange the audited annual accounts, together with the directors' report and auditors' report, at least 21 days before the date of the general meeting and not more than five months after the date on which the financial period ends. In addition, each listed company must prepare and publish an interim report covering its activities for the first six months of each financial year. The report should include the full set of financial statements as annual reports and comparative figures, while accounting policies consistently applied by the company are not required to be repeated. The report must be distributed in the same way as its annual report and must be published not later than 3 months after the end of the six-month period. Companies listed on the Growth Enterprise Market (GEM) of the Stock Exchange are required to publish quarterly accounts. Interim and annual reports are also published in local newspapers and on the website of the Stock Exchange, while financial reports of companies listed on GEM are published on the website of the Stock Exchange only.	Although management of listed companies are free to meet with financial analysts or news-reporters, they are prohibited to make available price sensitive information to selected parties. All price sensitive information must be kept confidential or disclosed to the public by way of even dissemination.
IE	The financial reporting guidelines for public non-financial companies are mainly contained in the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs). These standards are designed and implemented by the various accountancy bodies. Companies must adhere to the Companies Acts when drawing up their accounts, as well as the financial reporting guidelines mentioned above. The information, which must be disclosed in accordance with the Companies	In the case of disclosure to the public, companies with a share capital must submit annual returns to the Registrar of Companies. This information is freely available to the public.	According to the Stock Exchange Listing Rules, shareholders must be treated equally and therefore information must be given to analysts and shareholders at the same time. The listing rules specifically state in Section 9.6 that information that is required to be notified to the Company Announcement Office must not be given to anyone else before it has been so notified, except as permitted by paragraphs 9.4 and 9.15.[35] According to Section 9.16, a

[35] Paragraph 9.4 allows a company to disclose information in confidence about impending developments or matters in the course of negotiation to certain recipients (eg the company's advisers, advisers involved in the matter in question, persons with whom the company is negotiating any commercial, financial or investment transaction, trade unions or employee

(continued)

	Acts, also depends on the size of the company. The Stock Exchange Listing Rules are another source of regulation with respect to listed public companies. Under Irish generally accepted accounting practice (GAAP), accounting statements are prepared at the end of each financial year and these accounting statements must disclose all adopted accounting policies in a note to the financial statements. Included in the notes to the financial statements is a note on the provisions made against liabilities and charges. However, disclosure of details of non-performing loans is not specifically required.		company having listed shares must ensure equality of treatment for all holders of such shares who are in the same position.
IT	Companies must draw up solo and consolidated annual accounts, consisting of balance sheet, profit and loss account, notes to the accounts and report on operations. Companies with shares listed on the stock exchange must also draw up a half-yearly report and quarterly reports in accordance with the provisions governing annual accounts. The profit and loss account shows the main margins of income (production value and costs, financial income and expenses, value adjustments and readjustments, extraordinary income and expenses, taxes, net profit). The notes to the accounts must indicate, inter alia: accounting policies; changes in fixed assets; investments in subsidiary and related companies; claims and debts with a residual maturity of more than five years; off-balance sheet commitments. The directors' report on operations describes the situation of the company and the group, the progress of operations and the outlook for the future. The half-yearly report consists of the financial statements and supplementary information. The other format of the balance sheet and profit and loss account is the same as that of the annual accounts. The accompanying information describes: – the overall situation of companies included in the consolidation and the progress of operations; – factors that influenced the situation of the firms included in the consolidation and operations as a whole, with particular reference to cyclical and seasonal factors and to significant changes in costs and earnings; – net financial position, with assets and liabilities shown separately; – general information on business developments permitting a reasonable forecast of the results for the year, and the most important trends in the main indicators of income and the evolution of the financial structure;	The annual accounts, half-yearly report and quarterly report are made available to the public as follows: • the annual accounts within 30 days of the date of their approval (which must take place within 4 months of the end of the financial year). The shareholders may inspect the draft annual accounts prepared by the directors in the 15 days preceding the date on which the shareholders' meeting is called to approve the accounts; • the half-yearly report within 4 months of the end of the first half of the financial year; • the quarterly report within 45 days of the end of each quarter. The quarterly reports referring to the balance sheet date (end of the financial year) and half-yearly report date (end of the first half) may be skipped if the public disclosure of those documents is brought forward.	The regulations issued by the market supervisory authority provide for the possibility of disseminating research reports to the public on companies that issue financial instruments (shares, bonds, covered warrants, etc), provided such reports are made available to the supervisory authority and to the market management company on the same day on which they are disseminated to the public. Where research reports are addressed to specific categories (shareholders of the issuer, etc), the documentation is to be filed with the market management company within 15 days of the date on which it was delivered to such persons.

representatives). The company must be satisfied that such recipients of information are aware that they must not deal in the company's securities before the relevant information has been made available to the public. If the company has reason to believe that there may be a breach of confidence that would lead to substantial movement in the price of its listed securities the Company Announcements Office must be notified without delay. Paragraph 9.15 deals with the issue of information notification when the Company Announcements Office is not open for business. In this instance, the company must ensure that there is adequate coverage of the information by distributing it to not less than two national newspapers and to two newswire services operating in Ireland.

	- accounting policies; -movements in fixed assets, claims and debts with a residual maturity of more than 5 years, off-balance sheet commitments, and changes in the main items of the profit and loss account. The quarterly report provides information on the economic and financial situation of the company and the group. The quarterly report is composed of: financial statements; notes; comments on operations and events of the period. The financial statements show at least: volume of business and result on operations; components of income and expenses; net financial position, with assets and liabilities shown separately.		
NL	A non-financial company is required by law to publish an annual report (balance sheet, income statement, cash flow statement and disclosures). The bylaws of some companies also require half-year financial statements. Accounting methods are disclosed in the financial statements, as are the financial performance and loan loss provisions. Since classification of loans is not required, often the financial statements will not show non-performing loans.	This information is publicly available.	Listed companies are subject to the Trade of Securities Supervision Act. Any information that may be of interest for an investor must be publicly disclosed. Selective disclosure is not permitted in such cases.
ES	As regards financial statements, listed companies (issuers) must report their key balance sheet data quarterly. In those quarters that coincide with the end of calendar half-years, they must publish their balance sheet and full profit and loss account. This information is published one month after the end of each quarter. With regard to significant holdings, investors shall notify the stock exchanges of holdings that exceed 5% or successive multiples thereof in a listed company, while the managers and directors shall notify all purchases and sales of shares in the company of which they are managers or directors.	Both kinds of information are available to the public both from the stock exchanges and from the securities market supervisory body (CNMV).	na
SE	Non-financial as well as financial companies are required to prepare an annual report including; balance sheet, income statement, notes (on the accounts), director's report and audit report. In some cases (for listed companies or companies with at least 200 employees), a funds statement must be included. The fund statement shall include reports about the company's financing and capital investment during the financial year. In general, Sweden follows the statements in the International Accounting Standards (IAS).	Within a month after the balance sheet and the income statement have been drawn upon, the annual report should be sent to the registration authority. After the authority receives the annual report, it makes it public by an announcement. According to the rules, there are no requirements for making interim reports public.	In very special situations, the company may release information selectively without simultaneously publishing it. This exemption must be used very restrictively and applies only to the release of information which is of major significance to the company. The company should make clear to the recipient that the information must be treated confidentially and that the recipient has thereby become an "insider" and is consequently prohibited from utilising the information on behalf of himself or a third party. In certain especially sensitive situations, it may be appropriate to prepare a confidentiality agreement between the parties.
CH	Guidelines exist; for details refer to the "Aktienrecht" in the Swiss Code of Obligations. Companies have to report on a yearly basis. However, there is no public information available on non-performing loans.	The annual report has to be published.	No.
UK	Financial reporting guidelines and public disclosure requirements for public non-financial companies are determined by the requirements of legislation, (for example the Companies Acts and Financial Services	For listed companies, financial information requirements are set out in Chapter 12 of the Listing Rules. Companies are required to	The Listing Rules (Chapter 9) set out companies' disclosure obligations. In general, they seek to ensure that information that would be expected to have a material impact on the

	Acts), and accounting standards (set by the Accounting Standards Board). Institutional guidelines promulgated by the associations of institutional investors may also have an influence on the practice of individual companies.	issue: • Preliminary statement of annual results and dividends • Annual report and accounts • Half-yearly report. Frequency of financial reporting is set out in the UK Listing Rules. The Listing Rules define the content of, and determine the timing and method of publication of, these reports.	prices of listed securities is disclosed to the public without delay, subject to a few exceptions.
US	Public non-financial companies are required to file quarterly GAAP financial statements.	It is available to the public.	No selective disclosure is allowed.

Table C.5: Public disclosure requirements for financial companies (Question 7, Section C)

	Financial reporting guidelines	Availability	Selective disclosure
AU	The financial reporting and disclosure requirements are prescribed by the Australian Corporations Law and the Australian Accounting Pronouncements (ie the Australian accounting standards) and, for those corporations that are listed, the Australian Stock Exchange. The frequency of financial reporting and disclosure varies depending on the type of reporting entity, however in general financial companies are required to prepare general purpose financial statements on an annual as well as interim (half-yearly) basis. The interim reporting requirements are a concise version of the annual financial reporting requirements. The measurement and disclosure requirements in respect of loan loss provisioning are covered by the Australian Accounting Standards insofar as the standards require that asset values not be stated above recoverable value. Specific guidance on the measurement of loan loss provisioning is provided by APRA and acknowledged and permitted by an Australian accounting standard. The disclosure requirements in respect of non-performing loans are covered by an Australian accounting standard which is based on the requirements of APRA.	The general purpose annual and interim financial statements prepared by these institutions are available to shareholders and the public.	Corporations are allowed to make specific or selected disclosure to specific interested parties. However, corporations that are listed on the Australian Stock Exchange are not allowed to disclose information exclusively in advance of such disclosure to the broader market where the information is deemed to be market-sensitive information. The Australian Corporations Law and the listing rules of the Australian Securities Exchange cover this specific issue of market and selective disclosure.
BE	Credit institutions are required to publish annual accounts.	Available to the public.	na
CA	Quarterly unaudited financial statements and an audited annual report to shareholders are required. The reporting must comply with Canadian GAAP. Reporting requirement details with respect to financial performance and credit quality measures tend to vary depending on the type of financial institution and its regulator. They must disclose if deposit insurance applies to products. For market investment products, they must indicate that past performance is not indicative of future performance.	The information is available to the public.	No selective disclosure is allowed. However, there has been controversy over companies hosting conference calls at the time of release for selected analysts. More recently, the practice has been to allow anyone to listen in on these conference calls/webcasts.
FR	Annual accounts must include balance sheet, off-balance sheet exposures, profit and loss account and notes.[36] Notes must provide a breakdown by type of the significant items that comprise the various lines of the financial statement; must include all material information required to give a true and fair view of the assets and liabilities, financial situation, exposure and profit or loss of the institution. A recommendation has been published by the French Banking Commission (CB) and the COB (January 2000), to enhance credit risk disclosure by credit institutions and investment firms (financial institutions) and specifically by issuers of debt and equity securities listed on a regulated market. Financial institutions are urged to develop their disclosure of credit risk in their annual financial statements. This recommendation covers all areas of credit	Institutions whose balance sheet total exceeds EUR 450 million must publish their accounts in a special bulletin with certification from the auditors. It has to specify how the management report is made available to the public. Concerning consolidated accounts, institutions must publish quarterly financial statements and an individual and consolidated statement of half-year operations and results.	Any person who prepares a financial operation which may have a material impact on the price of a financial instrument or the situation and rights of holders must, as soon as possible, inform the public of the characteristics of this operation (Article 6). The COB may request that issuers and persons publish on a timely basis information it considers useful for the protection of investors and the proper functioning of the market. Failing this, the COB may publish this information itself (Article 9).

[36] Regulation nos 91-01 and 91-03 (*Comité de la réglementation bancaire et financière*) relating to the accounting system, preparation and publication of the accounts of credit institutions.

	risk and insists on the breakdown of the outstanding amount of instruments (i) by activity sector (ii) by major categories of counterparties (iii) by geographical area (iv) by internal rating and (v) by doubtful instruments and impairment losses. This recommendation is in line with the Basel Committee proposals ("best practices for credit risk disclosure"). For prudential purposes, credit institutions and investment firms have to provide the French supervisory authority with monthly, quarterly and biannual information (profit and loss accounts, balance sheets, specific information about loans as provisions, currencies, counterparties). Some of these data, complemented by monthly ones, are also used for statistical purposes (monetary aggregates, financial accounts) as requested by the ECB.		
DE	See non-financial companies. In addition, standards for the structure of financial statements are laid down in the Rechnungslegungsverordnung für Kreditinstitute (regulation on accounting of credit institutions).	Available to the public. Supervisory reporting according to Prüfungsberichtsverordnung (regulation governing the content of the auditoers' report on credit institutions) only available to supervisory authority.	Disclosure requirements must be made available to the public. Additional disclosure to selected stock market analysts is not customary.
HK	Under the Banking Ordinance, authorised institutions are required to submit to the HKMA information for supervisory purposes. In addition, authorised institutions are required to disclose financial information according to the disclosure standards issued by the HKMA.[37] Local authorised institutions (except for the smaller restricted licence banks and deposit-taking companies) are required to disclose the following financial information in their annual accounts: income statement; balance sheet; cash flow statement; accounting policies; loan quality (overdue and rescheduled loans, non-performing loans and loan loss provisions); off-balance sheet exposures; maturity profiles; segmental information; risk management; and capital adequacy and liquidity information. Local authorised institutions that meet the size criteria (except wholly owned subsidiaries of Hong Kong SAR incorporated authorised institutions) are also required to disclose their profit and loss and balance sheet information, loan quality, off-balance sheet exposures, segmental information, risk information, and capital adequacy and liquidity information for their interim financial periods. Authorised institutions incorporated outside Hong Kong SAR (except for the smaller restricted licence banks and deposit-taking companies) are required to disclose similar information as the above in respect of their operations in Hong Kong SAR on a half-yearly basis. In addition,	Authorised institutions should exhibit a copy of their annual accounts in a conspicuous position in the principal place of business in Hong Kong SAR and in each local branch. In addition, authorised institutions are required to issue a press release in both English and Chinese in Hong Kong SAR for their interim and annual results within a specified time period. A copy of the press release is kept in the HKMA's public registry for public perusal. The HKMA will make available to the public the aggregate position of key information on performance of the banking industry as a whole on monthly and quarterly basis.	No.

[37] (i) "Financial disclosure by locally incorporated authorised institutions", which sets out the disclosure standards in respect of annual accounts by local authorised institutions; (ii) "Recommendations on interim financial disclosure by authorised institutions incorporated in Hong Kong", which sets out the disclosure standards in respect of interim financial disclosure by local authorised institutions; (iii) "Disclosure guidelines for overseas incorporated authorised institutions", which covers both annual and interim financial disclosure for authorised institutions incorporated outside Hong Kong SAR. In addition to these disclosure standards, authorised institutions need to take account of the other disclosure requirements under the Companies Ordinance, the Stock Exchange Listing Rules and accounting standards where relevant.

	certain key financial information (including capital, assets, loans and deposits) of the overseas institution as a whole are also required to be disclosed to help place the operation of the local branch within the context of the whole institution.		
IE	The financial reporting guidelines for financial companies are mainly contained in the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs). Accounting regulations for credit institutions are in the banks' accounts Directives (EU Legislation) and the Companies Act. Collective investment schemes may be established as corporate entities and, as such, these investment companies are subject to the requirements of the Companies Act. They are also subject to detailed conditions imposed by the central bank, which is responsible for the authorisation and Supervision of Irish collective investment schemes. If financial companies are also listed public companies, they must adhere to the Stock Exchange Listing Rules. The accounting statements of credit institutions and investment firms are prepared at the end of each financial year in accordance with GAAP, and must disclose all adopted accounting polices in a note to the financial statements. Included in the notes to the financial statements is a note on the provisions made against liabilities and charges. However, disclosure of details of non-performing loans is not specifically required. Disclosure and reporting requirements, to which investment companies are subject, also derive from conditions imposed by the central bank, and are as follows, (a) a prospectus containing detailed information regarding the investment company; and (b) annual and semi-annual accounts for the investment company.	The credit institutions and investment companies are public limited companies and the mentioned documents are available to the public. In the case of disclosure to the public, companies with a share capital must submit annual returns to the Registrar of Companies. This information is freely available to the public.	According to the Stock Exchange Listing Rules, shareholders must be treated equally and therefore information must be given to analysts and shareholders at the same time. The listing rules specifically state in Section 9.6 that information that is required to be notified to the Company Announcement Office must not be given to anyone else before it has been so notified, except as permitted by paragraphs 9.4 and 9.15.[38] According to Section 9.16, a company having listed shares must ensure equality of treatment for all holders of such shares who are in the same position.
IT	Banks and financial companies must draw up solo and consolidated annual accounts, consisting of balance sheet, profit and loss account, notes to the accounts and report on operations. Companies with shares listed on the stock exchange must also draw up a half-yearly report and quarterly reports in accordance with the provisions governing annual accounts.[39] The profit and loss account is structured to show the main components of income and expense and to distinguish operating results (interest, dividends, fees and commissions, dealing profits and losses, administrative expenses, direct taxes) from valuation results (value adjustments, readjustments and allocations to provisions). The notes to the accounts must indicate, *inter alia*: accounting policies; book value, current value of securities and changes in the securities portfolio; investments in subsidiary and related companies; guarantees issued, commitments and forward transactions; concentration of risk; breakdown of assets and liabilities by maturity,	The information provided concerning non-financial companies (previous question) also applies in the case of banks and financial companies.	

[38] See footnote on Ireland in previous table.

[39] The rules governing annual accounts of banks and financial companies are also in conformity with the relevant Community legislation, particularly as regards the formats of the balance sheet and profit and loss account, the information contained in the notes to the accounts, and general and specific accounting principles.

	geographical area, sector and currency; non-performing loans; amount and composition of supervisory capital and solvency ratio. In addition to information disclosed by non-financial companies (see previous question), banks report on the activities generating credit risk, their composition by type of product (short-term loans, medium-long-term loans, trading book and non-trading book securities, guarantee commitments, etc), commercial strategies pursued, system of internal controls and accounting policies (use of guarantees, recourse to derivatives or insurance, netting agreements, asset assignments or securitisations and any associated risk). The rules for half-yearly and quarterly reports are the same as those for non-financial companies (see previous question). Financial statements of banks and financial companies follow the formats and rules of their annual accounts. In addition, the supplementary information also includes data on the composition of assets and liabilities by geographical area, sector, currency and maturity, the stocks and flows of bad and doubtful debts, value adjustments and supervisory capital, and the solvency ratio.		
NL	Like a non-financial company, a financial company is required by law to publish an annual report (balance sheet, income statement, cash flow statement and disclosures). The bylaws of some companies also require half-yearly financial statements. Accounting methods are disclosed in the financial statements, as are the financial performance and loan loss provisions. Since classification of loans is not required, often the financial statements will not show the non-performing loans. Financial institutions that are supervised by the Netherlands Bank, must also report to the Bank. Depending on the subject, the information will have to be available to the Bank monthly, bimonthly, each half year, or yearly. Loan loss provisioning for example has to be reported to the Bank half-yearly.	The information as described is publicly available. The information reported separately to the Bank is not publicly available.	Listed companies are subject to the Trade of Securities Supervision Act. Any information that may be of interest for an investor must be publicly disclosed. Selective disclosure is not permitted in such cases.
ES	Banks, savings banks, credit cooperatives and specialised credit institutions send financial information to the Bank of Spain for supervisory purposes. In particular, credit institutions must send monthly, quarterly, half-yearly and annual information on their balance sheets and profit and loss accounts in a confidential way to the Bank of Spain for the purposes of its exclusive supervision. As regards methods of accounting, each credit institution specifies in the notes to its annual accounts the standards and principles applicable.	Monthly balance sheet and profit and loss account information is available to the public through Spanish banking associations (AEB and CECA). Information is also available on the institutions' websites.	na

SE	Non-financial as well as financial companies are required to prepare an annual report including; balance sheet, income statement, notes (on the accounts), director's report and audit report. In some cases (for listed companies or companies with at least 200 employees), a funds statement must be included. The fund statement shall include reports about the company's financing and capital investment during the financial year. In general, Sweden follows the statements in the International Accounting Standards (IAS). There are specific disclosure policies for listed companies.[40]	Within a month after the balance sheet and the income statement have been drawn up, the annual report should be sent to the registration authority. After the authority receives the annual report, it makes it public by an announcement. According to the rules, there are no requirements for making interim reports public.	(For listed companies.[41]) In very special situations, the company may release information selectively without simultaneously publishing it. This exemption must be used very restrictively and applies only to the release of information which is of major significance to the company. The company should make clear to the recipient that the information must be treated confidentially and that the recipient has thereby become an "insider" and is consequently prohibited from utilising the information on behalf of himself or a third party. In certain especially sensitive situations, it may be appropriate to prepare a confidentiality agreement between the parties.[42]

[40] The following guidelines and requirements concern only listed companies and should be regarded as supplements to the ones above.

1. Information which is materially likely to influence the valuation of the company's listed securities may not, other than in special cases, be disclosed other than through publication.
2. Press releases of unaudited annual earnings figures, interim reports and forecasts in respect of earnings and/or sales, which are prepared by the company for publication, shall be published immediately after the preparation of the report or forecast.
3. Publication shall be deemed to have taken place where information is provided for dissemination to at least one established news bureau and at least three national daily newspapers. The information shall be simultaneously provided to the Exchange.
4. Where the publication of certain information is prejudicial to the company, the company may refrain from publishing such information, provided that the Exchange has consented thereto. The information must, however, always be provided to the Exchange in the prescribed manner.
5. Annual reports, prospectuses and other information which is provided for distribution to, or kept available for, shareholders must simultaneously be provided to the Exchange.
6. Annual reports shall be prepared in accordance with applicable law or other regulations and in accordance with generally accepted accounting principles for stock market companies. Significant deviations from the recommendations of the Swedish Financial Accounting Standards Council shall be presented under the heading "accounting principles". Deviations must be justified.
7. After the company's board of directors has approved the annual accounts, the company shall immediately publish a press release containing the most important information from the forthcoming annual report.
The press release shall always include the following:

a) a summarised income statement for the financial year with comparable figures for the preceding year; these results shall include the estimated tax costs for the year. Where extraordinary items arise, these shall be separately reported;
b) the net earnings per share, where applicable adjusted to take into consideration dilution effects of outstanding convertible debentures, warrants and suchlike where these result in a significant reduction in the earnings. In this context, the manner in which the earnings per share are calculated on the basis of the net profit shall be stated. Earnings per share may be substituted by other information which, taking into consideration the circumstances in the branch or suchlike, may be deemed to afford a better basis for a valuation of the share;
c) the balance sheet in summary for the close of the accounting period, with comparable figures for preceding years;
d) a funds statement in summary for the period, with comparable figures for preceding years;
e) turnover and/or earnings per line of business to the extent such is presented in the annual report;
f) explanations of the earnings trend and financial position, including, inter alia, the effect of significant extraordinary events;
g) information in respect of the size of capital expenditures made;
h) proposed allocation of profits;

(continued)

CH	The Banking Ordinance regulates the details. In principle, financial companies have to report on a yearly basis; some balance sheet data, however, have to be handed in on a monthly basis. Data on non-performing loans are available only to the Swiss Federal Banking Commission, and not to the public or to the Swiss National Bank.	The annual report has to be published.	No.
UK	The financial reporting guidelines and public disclosure requirements outlined in the previous table also apply to financial companies. In addition to the reporting guidelines and requirements applicable to all public companies, guidelines for banks are produced in the British Bankers' Association (BBA) and Irish Bankers' Federation (IBF) Statement of Recommended Accounting Practice on Advances (SORPS). These banking industry standards set out recommendations on the accounting treatment and disclosure of advances, segmental reporting, contingent liabilities and commitments, securities and derivatives. SORPS are approved by the ASB and are intended to supplement rather than override applicable accounting standards, laws and regulations. They are also subject to the overriding requirement that accounts must present a true and fair view (UK Companies Act).	All company annual reports are public documents - this would thus include all financial companies.	Any information which might be price sensitive must be announced to the market as a whole without delay, and "must not be given to anyone else before it has been so notified". This is reinforced in the UK Listing Authority's "Guidance on the dissemination of price sensitive information", which gives practical guidance on what can be, and what should not be, covered in private briefings by companies. Exceptions are detailed in Chapter 9, where disclosure is allowed to specified entities (eg company advisers) in specified circumstances (eg negotiations). There is a provision for the Listing Authority to grant dispensations where disclosure might "prejudice the company's legitimate interests".
US	SEC requirements apply to financial companies at quarterly frequency. These companies must also file regulatory reports with banking agencies.	It is available to the public.	No selective disclosure is allowed.

i) information as to the estimated date of publication of the annual report;
j) information as to the place at which the annual report/consolidated financial statements will be made available to the public;
k) information in respect of the planned date of the annual general meeting of the shareholders.

8. Press releases shall be published not later than two months after the end of the financial year.

9. In the event the annual accounts are changed such that they significantly deviate from what is stated in the press release, the company shall immediately publish the changes.

10. Interim reports shall be provided quarterly, not later than two months after the end of the quarter. That which is stated in Section 6 above in respect of annual reports, as well as in Section 7 a)-g) in respect of the contents of press releases, shall apply to such interim reports. In addition, the estimated date of publication of the next interim report or press release shall be stated.

11. Interim reports shall state whether the company's auditors have carried out a general review of the report.

[41] "Guide to the Exchange rules 2001", Stockholmsbörsen.

[42] Examples of recipients of selective information:

- Major or contemplated shareholders prior to a planned new stock issue
- Lenders prior to significant lending decisions
- Rating institutions prior to credit rating
- Advisers prior to planned stock issues or other major transactions
- Contemplated bidders or target companies in conjunction with takeover bids.

Table C.6: Information on financial risks and disclosure requirements on share buybacks (Questions 7 and 8, Section C)

	Guidelines to financial companies on informing customers on financial risks	Disclosure requirement on share buy-backs
AU	There are various requirements contained in the Australian Corporations Law and other legislation (ie Consumer Credit Code) that institutions must comply with in relation to required product disclosure to clients. The degree of the disclosure requirements and the onus placed on institutions to make the appropriate disclosure will also vary depending on whether the institution is deemed to be in the role of advising the client.	Under the Corporations Act, a company undertaking a share buyback must include with its offer to buy back shares a statement setting out all information known to the company that is material to the decision whether to accept the offer. Before a buyback can be passed by shareholders, the company must lodge all offer documents with the regulator, the Australian Securities and Investments Commission.
BE	na	na
CA	For market investment products, they must indicate that past performance is not indicative of future performance.	In Ontario, the jurisdiction where most share buybacks occur, companies may generally repurchase their shares pursuant to an "issuer bid".[43] Companies must disclose at least once a year that they are undertaking an issuer bid for a maximum number of shares. The detailed requirements for disclosure include a range of information: background to the bid, a statement of the intent of any interested parties to tender or not tender their shares (if known by the issuer), a description of the effect the issuer anticipates that the bid (if successful) will have on the direct or indirect voting interest of interested parties, etc. In addition, under certain circumstances an issuer will be required to provide a formal valuation of the shares produced by a third party.
FR	According to Regulation no 98-07 (French Securities Commission, COB), information provided to the public about financial instruments must be accurate, precise and fairly presented. All issuers must, as soon as possible, inform the public of any major new developments which may, if known, have a significant impact on the price of the financial instruments, or the situation and rights of holders of this financial instrument (Article 4).	Share buybacks are regulated by Act no 98-546 of 2 July 1998. As far as public disclosure is concerned, share buyback programmes have to be agreed by the general assembly of stockholders. For this purpose, auditors are requested and have to certify accounts. Furthermore, the share buyback programme has to be publicly announced. For quoted firms, French Stock Exchange regulations apply for public information disclosure.
DE	Since 1998, risk reports in accordance with DRSC 5/10, giving qualitative and quantitative information about the risks the financial company carries as part of the status report of the financial statement. Legal base is the Gesetz zur Kontrolle und Transparenz im Unternehmenssektor (KoTraG).	Share buybacks allowed since 1998. Requirements comprise: authorisation by the general meeting of shareholders less than 18 months before, disclosure in yearly or quarterly reports stating number and price of own shares that are bought back. Disclosure within one week of buyback to the Bundesaufsichtsamt für den Wertpapierhandel (BAWe) only if 5% or 10% threshold of voting rights is passed.
HK	Yes.	The company must report to the Stock Exchange not later than 9.30 am on the business day following any day on which the company buys back its shares (whether on the Stock Exchange or otherwise) total number of shares purchased and the purchase price per share or the highest price and lowest price paid. The company must confirm with the Stock Exchange that the purchases made on the Stock Exchange were made in accordance with the Listing Rules and that there have been no material changes to the particulars contained in the

[43] According to provisions in Part XX of the Securities Act (Ontario). Further provisions are contained in OSC Rule 61-501 ("Insider bids, issuer bids, going private transactions and related party transactions").

		explanatory statement sent to its shareholders at the time the share repurchase mandate was sought. The company must also include in its annual report and accounts a monthly breakdown of purchases of shares made during the financial year covered by the report, showing the number of shares purchased each month and the purchase price per share or the highest and lowest price paid for all the purchases and the aggregate price paid by the company. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making the purchases. In respect of shares purchased other than on the Stock Exchange, the company must seek prior approval of the independent shareholders. The notice of the general meeting must be accompanied by a circular setting out details of the proposed purchase. The disclosure is similar to a general offer document as required by the Hong Kong Code on Share Repurchases.
IE	Credit institutions must adhere to specific requirements in advertising services or products, in accordance with Section 117(1) of the Central Bank Act, 1989. The advertising requirements applicable to investment products include the following: Any unusual risks involved must be explained adequately. The advertisement must include the warning "*Investments may fall as well as rise in value",* if the product can fluctuate in price or value. Advertisements for high volatility products must state that the investor could lose the total value of his/her initial investment. If the income from an investment product can fluctuate, the advertisement must contain such a warning. There is also a Code of Conduct for the Investment Business Services of Credit Institutions (requirements issued in accordance with Section 117(1) of the Central Bank Act, 1989) and a Code of Conduct for Investment Firms (requirements issued under Section 37 of the Investment Intermediaries Act, 1995). Under these codes of conduct, credit institutions/investment firms are required to act in the best interests of their clients and they must ensure adequate disclosure of relevant material information.	According to the Companies (Amendment) Act 1983, a company cannot acquire its own shares whether by purchase, subscription or otherwise unless it falls into one of the specified exemptions as outlined in Section 41 of the Act. If a company is involved in acquiring its own shares, the financial statements of the company must give various information in relation to the shares it purchases during the year. The directors' report (which is included in the financial statements) must include the following details if a company has purchased its own shares during the accounting year: the number and nominal value of the shares purchased or redeemed; the maximum and nominal value of shares purchased or redeemed held by the company during the year; the number and nominal value of any shares previously purchased or redeemed, which are disposed of or cancelled; and if disposed of for money, the value of the consideration. the percentage of the called-up share capital that the shares purchase or redeemed represent; the amount of charges incurred in any of the above.
IT	Persons intending to make a public offering must notify the market supervisory authority in advance, attaching the prospectus to be published. The prospectus contains the information that, depending on the characteristics of the financial products and the issuer, is necessary for investors to make an informed assessment of the issuer's assets and liabilities, profits and losses, financial position and prospects and of the financial products and related rights. Where the public offering concerns financial products that are neither listed nor widely distributed among the public, the market supervisory authority authorises the publication of the prospectus. Otherwise, the market supervisory authority may, within 15 days of the notification, require offerers to include supplementary information in the prospectus and adopt specific procedures for its publication. At the expiry of such time limit, offerers may proceed with the publication.	Own shares purchased must be stated on the assets side of the balance sheet, with their face value also indicated. A special unavailable reserve equal to the amount of own shares held must be shown on the liabilities side.
NL	The Netherlands Bank supervises (collective) investment institutions and considers that it has a duty to set conditions so as to enable the public to gain an insight into the investment opportunities offered and into the objectives pursued by the investment institution, as well as into its investments and the	The amount of the share buyback has to be deducted from equity (preferably "other reserves"). This has to be disclosed. In addition, the reasons for the buyback have to be disclosed, as well as the number of shares, the nominal value

	associated risks. Investment institutions must furnish certain information to (potential) unit-holders. In addition, investment institutions are permitted to approach the investing public by means of advertising. It is, however, necessary that the insight that may be gained by the public from this advertising should not differ in any material respect from that which may be gained from the compulsory information. This means that, in their advertising, investment institutions must act with due prudence. A directive has been adopted that must be complied with in all advertising by investment institutions. In any advertisement stating expectations about the future or referring to past performance, the following sentences must be included: The value of your investments may fluctuate. Past performance provides no guarantee for the future. In addition, the directive gives detailed instructions on the presentation of returns, expected returns, forecasts, etc.	and the purchase price.
ES	As regards information on the financial risks of products offered by banks, there is no specific legislation on the subject. However, the rules on transparency of transactions and customer protection require delivery of the contract signed by the bank and the customer and also refer to the need for advertisements for the products of financial institutions to explain clearly and precisely their basic characteristics. Such advertisements require the prior authorisation of the supervisory authorities.	Public financial statements and annual financial reports have a section in which the companies should detail their portfolio of own stocks. In addition, all quoted companies should communicate to the stock market authorities any change in their portfolio of own stocks which exceeds 1% of their total capital. Financial companies under supervision of the Bank of Spain should also ask for permission for these operations.
SE	na	Finansinspektionen has issued regulations stating that an exchange or an authorised marketplace must have rules addressing the buying and selling of own shares on the exchange. These rules require the exchange to disclose buying and selling of own shares in a company before the start of trading the next day. The disclosure must comprise, among other things, the volume and price of the transactions.
CH	None.	No information available.
UK	In February 2001 the FSA published the Conduct of Business Sourcebook, which contains financial rules and guidance that will apply to firms' dealings with both retail and professional customers. The final set of standards will apply after the implementation of the Financial Services and Markets Act to firms authorised by the FSA to carry on investment business. The purpose of the Conduct of Business Sourcebook is to set business standards for various aspects of firms' relationships with their customers. In so doing, it sets standards for firms' dealing with customers in three main areas: fair dealing by firms when they advise customers or manage investments for them; information, so that customers can make informed choices; and protection, of customers' money and assets. The inter-professional conduct chapter of the Market Conduct Sourcebook sets appropriate standards for firms' dealings with other professional counterparties.	Purchases of own securities is dealt with in Chapter 15 of the Listing Rules. In the case of equities, shareholder authorisation must be obtained and regulations govern the method of purchase. In certain cases, these require a tender offer with notice in national newspapers. All purchases must be notified to the Company Announcements Office (15.9).
US	Rules are set by the SEC.	There are no specific disclosure requirements on share buybacks. However, the SEC has guidelines on when and at what price a company can buy back its own stocks.