

CHRONOLOGY OF EVENTS (FEBRUARY 95 – APRIL 95)

2 FEB	<p>The Liquidity Adjustment Facility's (LAF's) bid and offer rates were raised to 4.25% and 6.25% from 3.75% and 5.75% respectively, the fourth time the rates had been raised since the beginning of 1994. The following day, the Hong Kong Association of Banks (HKAB) announced an increase in interest rates on retail deposits with maturities of seven days or less of 0.5 percentage point.</p>
3 FEB	<p>A survey questionnaire on Foreign Exchange and Derivatives Market Activity was sent to the Authorised Institutions (AIs). Conducted every three years by the Bank for International Settlements (BIS), the survey provides the most comprehensive statistics on the global foreign exchange market. In view of growing interest in derivatives activities, the BIS has expanded the scope of the survey this year to cover derivatives related to interest rates, equity prices and commodity prices in addition to those based on exchange rates.</p>
6 FEB	<p>A policy paper setting out the conditions under which the HKMA would be prepared to recognise netting arrangements, and the method of calculating the credit exposure on bilaterally netted transactions for capital adequacy purposes, was issued to the AIs. Implementation of the revised framework requires amendments to the Third Schedule of the Banking Ordinance. HKMA also confirmed that the Hong Kong International Foreign Exchange Master Agreement complied with its policy paper on netting.</p>
10 FEB	<p>The Government gazetted the Banking (Amendment) Bill 1995. The Bill seeks to make HKMA the licensing authority for all three types of AIs in a bid to improve the checks and balances in the authorisation arrangements. The Bill also seeks to clarify the scope, objectives, duties and powers of a Manager appointed under the Ordinance to take control of a problem AI.</p>
13 FEB	<p>Responses from the survey on the extent to which AIs comply with the risk management guidelines on derivatives activities were collected. The result, published in this issue of the <i>Quarterly Bulletin</i>, shows that the majority of the surveyed AIs have reasonable internal controls in place to manage risks but that there is room for improvement.</p>
14 FEB	<p>An interim company which is jointly owned by the HKMA and HKAB was established to prepare the groundwork for the implementation of Real Time Gross Settlement in Hong Kong.</p>
27 FEB	<p>The Bank of England announced that Baring Brothers & Co Ltd had been the victim of losses caused by large-scale dealings by a trader in one of its subsidiaries in Southeast Asia. As a result, Barings could not continue trading and was put under administration. In view of this announcement, HKMA instructed the Hong Kong branch of Barings, which was a restricted licence bank, to close for normal business until further notice and to take additional measures to safeguard the assets of the institution in Hong Kong.</p>

6 MAR	Following the Barings episode, HKMA asked all AIs to review their internal control systems in respect of derivatives trading and to submit the report to HKMA within four weeks. The reports should describe the nature of derivatives trading and of the relevant internal control systems and evaluate whether these controls are working effectively.
14 MAR	The HKMA announced the decision to postpone the third phase of deregulation of time deposits, due on 1 April 1995 and covering deposits fixed for more than 24 hours, to allow HKMA and HKAB more time to assess the impact of the first two phases of deregulation. HKMA will conduct a full assessment in the third quarter of 1995 taking into account the half-year results of banks.
16 MAR	A letter was issued to all licensed banks specifying that the minimum size of a debt issue to be eligible for Sale and Repurchase Agreement (Repo) under LAF shall be HK\$ 1 bn. The requirement is necessary to ensure marketability and liquidity in the secondary market.
29 MAR	The Financial Secretary announced that at end-1994, the total assets of the Exchange Fund stood at HK\$ 408 bn, up 17% from end-1993. Of the total, HK\$ 384 bn (US\$ 49 bn) were denominated in foreign currencies, placing Hong Kong the seventh in the world in overall foreign exchange reserves and second in the world in reserves per capita. The accumulated earnings of the Fund increased by just over HK\$ 1 bn to about HK\$ 129 bn at end-1994. It was also announced that the balance sheet of the Fund would be published semi-annually to improve the transparency of its operation.
4 APR	HKMA lifted the restrictive requirements imposed under the Banking Ordinance on the Hong Kong branch of Barings on 27 February. The name of the bank had been changed to BishopsCourt (BB & Co) Limited on 10 March 1995. The lifting of restrictions followed the acquisition of the Barings Group by the ING Group of the Netherlands.
4 APR	HKMA announced that Mr Albert Cheok, Executive Director (Banking Supervision) was leaving at the end of April to pursue family business interests in Malaysia.
24 APR	HKMA announced that Mr Choi Yiu-kwan, Head of Administration, would become the new Executive Director (Banking Supervision) effective from 1 May.