

# EXCHANGE FUND NOTES



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[www.hkma.gov.hk](http://www.hkma.gov.hk)

## Introduction

Exchange Fund Notes are Hong Kong dollar fixed income debt securities issued by the Hong Kong Monetary Authority (HKMA). The Exchange Fund Notes Programme was introduced in May 1993. Since then, 2-year, 3-year, 5-year, 7-year and 10-year Notes have been issued. The minimum denomination of the Notes is HK\$50,000 and can be subscribed in integral multiples thereof. Since August 1999 the Notes have been listed on the Stock Exchange of Hong Kong.

## Status of the Notes

The Notes are direct, unsecured, unconditional and general obligations of the Hong Kong Special Administrative Region Government for the account of the Exchange Fund, which is established under the Exchange Fund Ordinance. The abridged balance sheet of the Exchange Fund is published monthly on the HKMA's website. The Notes are exempt from profits tax and stamp duty.

## Fixed Coupon and Interest

The Notes bear a fixed coupon rate at the time of issuance. Interest calculated on the coupon rate is payable semi-annually. Holders of the Notes will receive a steady stream of coupon payments during the life of the Notes. The Notes may not be redeemed before their maturity date. **Investors should note that while the coupon interest is fixed, the market price of the Notes may go down or up in line with interest rate movements.** The real return on the Notes will therefore depend not only on the coupon rate but also on the price at which the Notes are purchased. Normally, the longer the maturity of the Notes, the higher the yield, and the more sensitive the price to interest rate movements.

## Form of Notes

Exchange Fund Notes are scripless instruments cleared through a computerised book entry system operated by the Central Moneymarkets Unit of the HKMA. There is no physical delivery of the Notes. Investors may hold the Notes through a Recognised Dealer, a Stock Exchange Participant or through their Investor Accounts at Hong Kong Securities Clearing Company Limited's Central Clearing and Settlement System (CCASS).

## How to invest in the Notes

Investors may subscribe to the Notes on the primary market or purchase from the secondary market.

### Primary market

2-year, 3-year, 5-year, 7-year and 10-year Notes are offered for tender regularly by the HKMA. The Notes are offered for sale by competitive tender on a bid-price basis. Some are also offered through non-competitive tender. The list of the Notes to be tendered in the coming quarter is set out on a tentative issuance schedule. The schedule for each quarter is released in the second month of the preceding quarter on the HKMA's website.

The specific amounts and maturities of Notes on offer for competitive and non-competitive tenders will be confirmed and announced seven business days before the tender date specified in the tentative issuance schedule.

- Investors submitting competitive bids should indicate the quantity applied and the bid price. Competitive tenders accepted will normally be allotted in descending order of price bid from the highest to the lowest accepted price.

- Investors submitting non-competitive bids need only to indicate the quantity applied. Successful bids will be allotted the Notes at the average accepted price at the competitive tender for the same Notes.

Applications for competitive tenders may be submitted through Recognised Dealers appointed by the HKMA, Stock Exchange Participants or (for investors holding Investor Accounts at CCASS) directly through CCASS. Applications for non-competitive tenders should be submitted through Recognised Dealers designated as Retail Exchange Fund Notes Distributors.

Recognised Dealers are financial institutions authorized under the Banking Ordinance and are subject to the prudential supervision of the HKMA. The list of Recognised Dealers (including the Distributors) can be found on the HKMA's website.

Different Recognised Dealers (including the Distributors), Stock Exchange Participants and the CCASS may have different arrangements for accepting and processing application instructions. For example there may be differences in the means for submitting applications, operating hours, deadlines for accepting applications, payment and settlement methods and arrangements for making refunds, if any. For the non-competitive tender service, the Distributors undertake to charge only a handling fee and a custody fee. The charging scheme for the competitive tender service may vary from one service provider to another.

### Secondary market

Apart from participation in tenders, investors may buy or sell the issued Notes through the Stock Exchange Participants and the Recognised Dealers. Different Stock Exchange Participants and Recognised Dealers may have different payment and settlement arrangements.

Indicative market prices for the Notes are published daily on major newswire agencies and on the HKMA's website.

To facilitate participation of retail investors in the secondary market of the Notes, a Distributor adheres to a number of unified standards in the trading of Notes with retail investors. These standards include:

- Setting the minimum investment amount at HK\$50,000
- Offering quotes for at least the current benchmark Notes, i.e. 2-year, 3-year, 4-year, 5-year, 7-year and 10-year Notes
- Providing quotes inclusive of transaction fee
- Upon request, disclosing effective yield after deduction of custody fee for investment amount specified by a customer
- Committing to buy back the Notes from its customers
- Arranging designated office(s) to answer enquiries and provide service to retail investors
- Disclosing any restrictions related to the investment, such as transfer of the Notes and the relevant charges.

## Information on the Notes

More information on the Notes can be found at *Exchange Fund Notes: Information for Investors* on the HKMA's website [www.hkma.gov.hk](http://www.hkma.gov.hk). For further enquiries, please contact 2878 8783.

**Hong Kong Monetary Authority**  
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