



HONG KONG MONETARY AUTHORITY
香港金融管理局

8 December 2014

The Chief Executive
All Licensed Banks

Dear Sir/Madam,

Introduction of Hong Kong dollar Discount Facility for Hong Kong Government Bonds

The Hong Kong Monetary Authority (HKMA) will provide a Hong Kong dollar (HKD) discount facility for Hong Kong Government Bonds (HKGB) to all licensed banks in Hong Kong with effect from 15 December 2014.

Under the discount facility, the HKMA will provide overnight HKD funds of up to HK\$10 billion in total against a sale and repurchase (repo) of HKGB by banks. In particular, banks may initiate a repo transaction using HKGB with the HKMA to obtain overnight HKD funds. As in the case of borrowings through the Discount Window using Exchange Fund Bills and Notes as collaterals, the HKMA will charge an interest rate, based on a two-tier schedule of discount rates applicable to different percentage thresholds of holdings of HKGB by banks, with reference to the Base Rate of the Discount Window. The terms and conditions of the discount facility are set out at Annex 1.

Yours faithfully,

Howard Lee
Executive Director (Monetary Management)

Encl.

Terms and Conditions
Hong Kong Dollar Discount Facility for Hong Kong Government Bonds

Tenor	Overnight
Funds available	HK\$10 billion in total, available on a first-come-first-served basis
Eligible parties ⁽¹⁾	Licensed Banks
Eligible collateral	Hong Kong dollar HKSAR Government bonds (HKGB) lodged in Central Moneymarkets Unit (CMU), issued under the Government Bond Programme
Haircut	Haircut of 2% per year of remaining maturity to be applied
Interest rate	<ul style="list-style-type: none"> • A two-tier schedule of discount rates is applicable to different percentage thresholds of holdings of HKGB by banks • For the first 50% of the HKGB held, the Base Rate will be applied • For the next 50%, the applicable rate will be Base Rate plus 5% or overnight HIBOR for the day as announced by the HKMA, whichever is higher • The Base Rate will be the same as that for the Discount Window
Mode of operation	<ul style="list-style-type: none"> • Banks may initiate a repo using HKGB as collateral by contacting the dealing room of the HKMA at 2878 8104 or Reuters dealing code EFHK • After confirming the repo amount with the HKMA, the borrowing bank may input the repo request via the CMU Member Terminal (CMT) (see details in operating procedures of the CMU⁽²⁾) • The repo will be reversed on the next business day
Operating hours	Banks should make a request to the HKMA dealing room during 3:00pm to 4:30pm on each business day, and input the repo via CMT during 5:30pm to 6:30pm

Note:

- (1) Licensed Banks should have signed with the HKMA the Master Sale and Repurchase Agreement for the provision of liquidity assistance including lender-of-last-resort support and renminbi liquidity facility.
- (2) CMU operating procedures include Exchange Fund Bills and Notes Clearing and Settlement System Reference Manual, CMU Service Reference Manual and relevant circulars issued by the HKMA from time to time.