26 August 2019

Dear Sir/Madam,

HKMA Liquidity Facilities Framework

I am writing to update you on the Hong Kong Monetary Authority’s (HKMA) liquidity facilities framework for authorized institutions (AIs).

The HKMA has completed a review of its framework for the provision of liquidity to AIs. A new Resolution Facility is introduced to provide for the scenario in which resolution powers under the Financial Institutions (Resolution) Ordinance (FIRO) are exercised by the Monetary Authority as the Resolution Authority. The HKMA has also taken the opportunity to communicate and restate the framework for provision of liquidity, incorporating certain refinements to the prior arrangements where appropriate, so as to foster a better understanding on the part of the market of the different facilities through which the HKMA makes temporary HKD liquidity (i.e. not in the nature of capital support) available to AIs to maintain integrity and stability of the monetary and financial systems in Hong Kong.

The updated Liquidity Facilities Framework comprises the following:

- **Settlement Facilities** (Intraday Repo and Discount Window), the objective of which is to facilitate smooth operation of the interbank payment system and thus preserve systemic stability;

- **Standby Liquidity Facilities** (including term repos and FX swaps), the objective of which is to make term liquidity available to AIs to enable them to manage any unexpected liquidity tightness which they may encounter;

- **Contingent Term Facility**, which makes reference to the guiding principles of the previous Lender of Last Resort arrangements. It may be made available, at the discretion of the HKMA, to an AI facing extraordinary liquidity stress that cannot be overcome through other means (for example, market funding) where (i) access to the Settlement Facilities and/or the Standby Liquidity Facilities is not applicable or otherwise not sufficient; and (ii) the HKMA considers that the liquidity stress situation of the AI could of itself, or through the spreading of contagion or through the undermining of public confidence, threaten or damage systemic stability in Hong Kong; and
Resolution Facility, which is designed to provide for the scenario in which resolution powers under the FIRO are exercised by the Monetary Authority as the Resolution Authority. The Resolution Facility may be made available, at the discretion of the HKMA, having regard to systemic stability, for the purpose of ensuring that an AI which has (or whose holding company has) gone into resolution in Hong Kong has sufficient liquidity to meet its obligations, until such time as the AI is able to transition back to market-based funding.

Please refer to the enclosures for further details of the Framework and the related operational information. The updated Liquidity Facilities Framework takes immediate effect and supersedes the “Policy Statement on the Role of the Hong Kong Monetary Authority as Lender of Last Resort” issued in March 2009.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.