

HKMA Liquidity Facilities Framework for Banks¹

Introduction

1. Since the global financial crisis in 2008, regulatory reforms have been developed at the global level and implemented in Hong Kong to improve the resilience of banks and reduce systemic risk. However, central bank liquidity remains a crucial tool in the financial stability toolkit.

2. Over the past few years, a comprehensive cross-sectoral resolution regime, with a broad range of powers and a statutory framework for the recognition of cross-border resolution actions, has been introduced in Hong Kong. The Financial Institutions (Resolution) Ordinance (FIRO) establishes a resolution framework in Hong Kong that is in line with the Financial Stability Board's "Key Attributes of Effective Resolution Regimes for Financial Institutions", with a view to ensuring that a failing bank can be resolved in an orderly manner where warranted, and that the costs of failure are redirected from taxpayers to certain creditors and shareholders of the non-viable bank. The provisions that the FIRO makes for funding in resolution are an important part of implementing the regime, and the HKMA has developed a new facility as part of its Liquidity Facilities Framework, namely the Resolution Facility, which may be deployed in the context of a resolution where circumstances so warrant.

3. The HKMA is taking the opportunity presented by the introduction of the new Resolution Facility 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 and the general public of the different facilities through which the HKMA makes temporary HKD liquidity (i.e. not in the nature of capital support) available to banks to maintain integrity and stability of the monetary and financial systems in Hong Kong.

¹ In this framework, "banks" refers to licensed banks, restricted licence banks and deposit-taking companies.

Liquidity Facilities Framework

4. All liquidity shall be provided in ways consistent with the Linked Exchange Rate System, which is underpinned by the Currency Board arrangements. While the framework is designed to balance the competing demands of clarity and flexibility, it is recognised that no single approach can cover all eventualities, and the HKMA may adapt the framework or establish new facilities as it considers appropriate at the relevant time.

Settlement Facilities

5. The objective of the two Settlement Facilities (Intraday Repo and Discount Window) is to facilitate smooth operation of the interbank payment system and thus preserve systemic stability. In their normal day-to-day operations, banks may access the facilities to make adjustments to their liquidity positions, defined to be the balances in their clearing accounts with the HKMA. They may use their holdings of Exchange Fund Paper as collateral to obtain intraday or overnight HKD liquidity through the Intraday Repo and the Discount Window respectively. These standing facilities are meant to facilitate banks in meeting their settlement obligations in case of need in order to ensure the smooth functioning of the interbank payment system.

Standby Liquidity Facilities

6. The objective of the Standby Liquidity Facilities (including term repo and FX swap) is to make term liquidity available to banks to enable them to manage any unexpected liquidity tightness which they may encounter. Liquidity is normally available at a term of up to one month and may be rolled over, subject to re-pricing at maturity. The HKMA determines pricing by reference to market rates.

7. HKD Liquidity is provided under these facilities against standard collateral (USD or other major currencies (via an FX swap) and/or certain liquid securities denominated in HKD, USD or other major currencies (via a term repo)). See “HKMA Liquidity Facilities Framework for Banks: Operational Note” for further details.

Contingent Term Facility

8. The Contingent Term Facility 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 a bank 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 bank could of itself, or through the spreading of contagion or through the undermining of public confidence, threaten or damage systemic stability in Hong Kong. The HKMA will consider each application on a case-by-case basis, taking into account the prevailing circumstances. While the Contingent Term Facility is not subject to a limit on the maximum amount of liquidity that may be made available, it should be adequately collateralised. A wide spectrum of collateral will be considered for the purpose of providing liquidity under the Contingent Term Facility (see “HKMA Liquidity Facilities Framework for Banks: Operational Note” for further details), but the terms of assistance and acceptable collateral will be set by the HKMA on a case-by-case basis having regard to the particular circumstances of the applicant bank.

9. The Contingent Term Facility provides the necessary flexibility for the HKMA to respond adequately to extraordinary liquidity stress situations and enables the HKMA to plan for the most severe stress scenarios.

Resolution Facility

10. The Resolution Facility provides for the scenario in which resolution powers under the FIRO are exercised by the Monetary Authority as 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 a bank 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 bank is able to transition back to market-based funding. Like the Contingent Term Facility, the terms on which liquidity is provided under the Resolution Facility will be set by the HKMA on a case-by-case basis.

11. The Resolution Facility is distinct from the Contingent Term Facility in two ways. First, the Resolution Facility will be available only where resolution has been initiated under the FIRO. Second, any losses arising from assistance provided under the Resolution Facility may ultimately be recovered pursuant to the levy arrangements which may be imposed under the FIRO.

Disclosure by the HKMA

12. The HKMA does not disclose information about usage of the facilities, unless exceptional circumstances pertain where there is a strong case for doing so to maintain monetary and financial stability. However, should usage of the facilities result in an increase in the Aggregate Balance, the amount of the increase will be reflected in the regular updates of interbank liquidity on the HKMA website and on the HKMA pages of the major financial information outlets according to the established practice.

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