

## **HKMA Liquidity Facilities Framework for Banks: Operational Note**<sup>1</sup>

### **1. Settlement Facilities: (a) Intraday Repo; and (b) Discount Window**

The objective of these two Settlement Facilities is to facilitate smooth operation of the interbank payment system and thus preserve systemic stability. Banks 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. Operational details about using the facilities may be found in Section 1 of Part III of the CMU Reference Manual. A list of collateral eligible for the Settlement Facilities is shown at the Annex.

### **2. Standby Liquidity Facilities: (a) term repo; and (b) FX swap**

The objective of the Standby Liquidity Facilities is to make term liquidity available to banks to enable them to manage any unexpected liquidity tightness which they may encounter. HKD liquidity is normally provided for a term of up to one month, and there is flexibility for it to be rolled over on maturity, subject to the discretion of the HKMA.

Pricing will be determined by reference to market rates, taking into account current market conditions, and will be set at a level which is sufficient to maintain incentives for good management.

The value of the collateral will need to exceed the principal amount of the funding according to haircuts to be determined at the HKMA's discretion. A list of collateral eligible for the Standby Liquidity Facilities is shown at the Annex.

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

Banks intending to use the Standby Liquidity Facilities may contact the dealing room of the HKMA at 2878 8104 to arrange transactions. The HKMA will endeavour to complete the transaction within the same day or the next business day, as the case may be.

### **3. Contingent Term Facility**

Liquidity assistance under the Contingent Term Facility may be provided at the discretion of the HKMA, in forms appropriate to the specific circumstances. A list of eligible collateral for the Contingent Term Facility is shown at the Annex. Some collateral may require a longer lead time for assessment and acceptance and therefore early engagement with the HKMA is advised.

### **4. Resolution Facility**

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. A list of eligible collateral for the Resolution Facility is shown at the Annex.

**Annex**

***Settlement Facilities Collateral***

<u>Assets</u>	<u>Method</u>	<u>Haircut</u>
<b>Exchange Fund Bills and Notes</b>	Repo	2% per year of remaining maturity

***Standby Liquidity Facilities Collateral (Last updated on: 10 September 2019)***

<u>Assets</u>	<u>Method</u>	<u>Haircut</u>
<b>Settlement Facilities Collateral (see above)</b>	Repo	Minimum of 2.5%
<b>Cash (USD, EUR, RMB, JPY or GBP)</b>	FX Swap	n/a
<b>Hong Kong Government Bonds<sup>2</sup></b>	Repo	Minimum of 5%
<b>High quality liquid securities</b> denominated in HKD, USD, EUR, RMB, JPY or GBP issued by governments or supranationals acceptable to the HKMA on a case-by-case basis	Repo	Minimum of 10%
<b>Other investment grade securities</b> (as rated by major rating agencies) denominated in HKD, USD, EUR, RMB, JPY or GBP, acceptable to the HKMA on a case-by-case basis	Repo	Minimum of 10%

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<sup>2</sup> Taking into account the use of the Discount Facility for Hong Kong Government Bonds introduced in December 2014 and the status of banks' holdings of the Government Bonds, the Facility has been subsumed under the Standby Liquidity Facilities and is discontinued.

***Contingent Term Facility Collateral and Resolution Facility Collateral***

<u>Assets</u>	<u>Method</u>	<u>Haircut</u>
<b>Standby Liquidity Facilities Collateral (see above)</b>	See above	See above
<b>Residential mortgages</b> acceptable to the HKMA (preference given to mortgage loans under the Home Ownership Scheme or the Private Sector Participation Scheme (HOS/PSPS mortgages) <sup>3</sup> and mortgages satisfying the purchasing criteria of The Hong Kong Mortgage Corporation Limited (HKMC)).	Credit Facility	Minimum of 5% <sup>4</sup>
<b>Other loans</b> of acceptable credit quality which can be effectively charged or transferred to the HKMA (e.g. via portfolio securitisation). <sup>5</sup>	Credit Facility or other appropriate method	To be determined by HKMA on a case-by-case basis

<sup>3</sup> Eligibility of HOS/PSPS mortgages is subject to the Hong Kong Housing Authority's prior written consent to the transfer of the guaranteed loan.

<sup>4</sup> Haircut will be applied over the book value of the portfolio of mortgages provided by the bank as collateral: HOS/PSPS mortgages at least 5%; HKMC compliant mortgages at least 10%; other residential mortgages at least 20%.

<sup>5</sup> The HKMA will work with banks on a bilateral basis with a view to establishing information requirements and preparedness in respect of the use of other loan assets as collateral.