



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

3 April 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Liquidity measures in response to Covid-19 outbreak

I am writing to provide authorized institutions (“AIs”) with information on the measures that the Hong Kong Monetary Authority (“HKMA”) has taken or plans to take to ensure the continued smooth operation of the interbank market in Hong Kong and that the banking system can continue to support business and economic activities amid a challenging environment.

The recent coronavirus (“Covid-19”) outbreak has created considerable strains and uncertainties in the global financial markets. Frictions in the functioning of money markets in some jurisdictions were also observed. While the financial markets and banking system in Hong Kong have continued to operate in an orderly manner, there has been occasional tightness in the Hong Kong dollar money market due to fluctuations in demand and supply of funding, seasonal factors as well as the recent strain in USD funding. Some bank customers also face financial dislocations due to the disruptions to economic activities both locally and internationally. To ensure the continued smooth operation of the interbank market and the banking system, the HKMA has taken or plans to take the following measures to assist the industry in managing liquidity. These measures encompass three aspects, namely the HKMA’s Liquidity Facilities Framework, the Federal Reserve’s Temporary FIMA Repo Facility, and supervisory expectation on the use of liquidity buffers under the liquidity coverage ratio (“LCR”) and liquidity maintenance ratio (“LMR”) regimes.

Liquidity Facilities Framework

Since the promulgation of the updated Liquidity Facilities Framework in August 2019, the usage of the Settlement Facilities has been smooth and effective, with AIs obtaining intraday or overnight liquidity according to their needs. With regard to the Standby Liquidity Facilities (“SLF”) within the Framework, I would like to provide greater clarity about the operational parameters of the facilities as follows:

- Tenor – While funding under the SLF is normally provided for a term of up to one month, the HKMA is prepared to consider automatically rolling it over for additional term(s) to meet the longer-term funding requirement of individual AIs.
- Pricing – The HKMA will set the prices for SLF at levels that would help reduce market volatility.
- Collateral – There is a wide scope of assets eligible for being used as collateral for term repo under the SLF, which are not confined to High-Quality Liquid Assets (“HQLA”) as defined under the Banking (Liquidity) Rules (“BLR”).

More detailed clarifications can be found in the Annex. The HKMA believes that such clarifications will facilitate banks in more readily utilising the SLF to enhance their day-to-day liquidity management.

Federal Reserve’s Temporary FIMA Repo Facility

The Federal Reserve announced on 31 March 2020 the establishment of a temporary repurchase agreement facility for foreign and international monetary authorities (“FIMA Repo Facility”) to help support the smooth functioning of financial markets. The HKMA, as one of the FIMA account holders, may enter into repurchase agreements with the Federal Reserve and temporarily exchange the US Treasuries held by the HKMA for US dollars, which can then be made available to AIs in Hong Kong. The FIMA Repo Facility will last for at least six months starting from 6 April 2020.

The HKMA is in discussion with the Federal Reserve to clarify the operational parameters. We are also in the process of devising a mechanism for AIs to obtain US dollar liquidity from the HKMA after

this facility has come into operation. A separate announcement about the operational details will be issued shortly.

Utilisation of liquidity buffers under the LCR and LMR regimes

Since the regulatory liquidity framework was enhanced in 2015, AIs have built up stocks of liquid assets under the LCR and LMR regimes. The HKMA would like to remind AIs that these assets are designed as a buffer for meeting liquidity demand during times of financial stress. They help to enhance the capability of the banking system to support the real economy throughout the economic cycle.

In the light of the prevailing uncertainties brought about by the Covid-19 outbreak, I would like to reiterate the HKMA's stance that it is in line with the policy objective of the enhanced regulatory liquidity framework if AIs utilise their liquidity buffers (when circumstances so warrant under the BLR) to meet their liquidity demand and support business activities. The HKMA encourages AIs acting along this principle and will accept an AI operating temporarily with a lower level of liquidity ratio as a result.

Specifically, rule 6 of the BLR provides that a Category 1 institution may monetise its HQLA under certain circumstances even though this may cause the institution to maintain an LCR less than that required under rule 4 of the BLR. For Category 2 institutions, the requirement of maintaining the LMR above 25% on a monthly average basis entails that there may be temporary variations in the ratio so long as the monthly average ratio remains above the minimum requirement.

Operational readiness

AIs should, as a matter of priority, put in place internal policies and procedures for using the HKMA's liquidity facilities, especially the SLF. Your internal process should be operationally efficient to ensure timely access to the facilities. To ascertain compliance with this supervisory expectation for operational readiness, the Monetary Operations Division of the HKMA will reach out to individual AIs for conducting drills for accessing the SLF.

As for the utilisation of liquidity buffers under the LCR and LMR regimes, AIs should ensure that the flexibility embedded in the regulatory liquidity framework is integrated into their relevant internal

processes, and that they can efficiently utilise the liquidity buffers when there is a need to do so. The HKMA will reach out to individual AIs to understand their internal processes in this regard. Meanwhile, the HKMA is happy to provide further clarification to individual AIs having regard to their specific circumstances. We also stand ready to extend the maximum degree of flexibility under the existing regulatory framework amid the challenging economic and business environment.

Yours faithfully,

Encl.