

**Background**

Since the promulgation of the updated Liquidity Facilities Framework<sup>1</sup> in August 2019, the HKMA has strengthened communication with AIs to foster their understanding of and operational readiness in using the facilities. The use of the Settlement Facilities has been effective, with AIs obtaining intraday or overnight liquidity according to their needs. We have also conducted drills with some AIs on an individual basis on the use of Standby Liquidity Facilities (“SLF”) to obtain term liquidity. These efforts are aimed to familiarise AIs with the operation of the relevant facilities, and to also remove possible concern on any stigma that may be attached to using these facilities, which are provided for facilitating smooth operation of the interbank payment system and enabling AIs to manage any unexpected liquidity tightness which they may encounter.

**HKMA’s Standby Liquidity Facilities (“SLF”)**

As stated in the circular dated 26 August 2019, under the SLF, Hong Kong dollar liquidity is normally provided for a term of up to one month, and there is flexibility for it to be rolled over on maturity. Taking into account the prevailing market conditions and the specific needs of individual AIs, the HKMA is prepared to agree, when the term funding is initially provided, to automatically roll it over for additional term(s) in order to provide more certainty for relevant AIs in securing longer-term liquidity as necessary. Such an arrangement will effectively enable the SLF to be provided in a longer tenor to meet the funding requirement of individual AIs.

In setting the prices for SLF, according to the above-mentioned circular, the HKMA’s general policy is to make reference to market rates and to

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<sup>1</sup> See press release and circular dated 26 August 2019:  
<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2019/08/20190826-4/> and  
<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20190826e1.pdf>.

take into account prevailing market conditions. In light of current market situation, should there be material spikes in market rates because of tightness in the system, the HKMA would set the prices for SLF at levels that would help reduce market volatility. AIs are welcome to make enquiries with the HKMA on the going interest rates of the day.

With regard to term repo available under the SLF, as set out in the Operational Note of the Liquidity Facilities Framework, the HKMA is prepared to accept securities of investment grade or above denominated in the Hong Kong dollar and five other major currencies as collateral.<sup>2</sup> The acceptable collateral assets under the SLF are therefore not confined to High-Quality Liquid Assets as defined under the Banking (Liquidity) Rules.

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<sup>2</sup> See Operational Note:

[https://www.hkma.gov.hk/media/eng/doc/key-functions/monetary-stability/liquidity-facilities/Operational\\_Note\\_\(English\)\\_Liquidity\\_Facilities\\_Framework\(final\).pdf](https://www.hkma.gov.hk/media/eng/doc/key-functions/monetary-stability/liquidity-facilities/Operational_Note_(English)_Liquidity_Facilities_Framework(final).pdf).