

# PROVISION OF LIQUIDITY ASSISTANCE TO LICENSED BANKS IN HONG KONG

## Five Temporary Measures

- A Technical Note -

### Introduction

1. On 30 September, the HKMA announced a package of five temporary measures to enhance the framework of liquidity provision to the banking system with effect from 2 October. This note provides details on the implementation of the five measures, namely -

- Expansion of eligible securities under the Discount Window
- Extending the term of the liquidity provided through the Discount Window from overnight to maturities up to three months
- Waiving the penalty rate for using over 50% of the Exchange Fund paper holding in accessing the Discount Window
- Conducting foreign exchange swaps with individual licensed banks when necessary
- Lending term money to individual licensed banks against acceptable collaterals when necessary

### Expanded Eligible Securities

2. The eligible securities for accessing Discount Window (DW) will be expanded to include US treasury securities (UST) with effect from 2 October. Thus, both Exchange Fund Bills and Notes (EFBNs) and UST can now be used for Discount Window borrowing under the new arrangement. The HKMA will keep the list of US-dollar assets of credit quality acceptable to the Discount Window under review, and will consider refining it if necessary.

3. Currently, banks in Hong Kong can hold UST in the following ways:

- (1) at Fedwire if the bank is a participating institution of Fedwire;
- (2) via a custodian bank in the US which is a participating institution of Fedwire;
- (3) at Euroclear if the bank is a participating institution of Euroclear; or
- (4) at the CMU if the bank is a CMU member and has access to the Euroclear linkage service.<sup>1</sup>

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<sup>1</sup> A CMU Member who wishes to use the Euroclear linkage service can submit an Opening of Euroclear Sub-accounts Form at Annex 4. Upon receiving the request, the HKMA will arrange to open a designated sub-account in the Euroclear system for the CMU Member. The CMU Member will be informed of the Euroclear Account Number of its designated sub-account when the account is ready for settlement. The account-opening process requires roughly three business days to complete.

4. If a bank holds UST as set out in (1), (2) or (3) above, the Hong Kong dollar liquidity will be provided on a T+1 basis, upon confirmation of the receipt of the UST. This takes into account the operating hours of these securities settlement systems. For repo using such papers, the bank should make the request by calling the dealing room of the HKMA at 2878-8104, and the dealing room of the HKMA will confirm with the bank the quantity of the relevant papers required for the requested DW borrowings. The bank should then fill in the form in Annex 2 and fax it to the HKMA at 2878-8167 by 12:00pm. The HKMA's settlement team will contact the bank's settlement office to ascertain the details of the transfer of securities to the HKMA's securities account with Fedwire or Euroclear. Pending confirmation of the receipt of the securities (most likely in the morning on the following day), the Hong Kong dollar liquidity will be provided before 12:00 noon the next day.

5. If an eligible bank holds UST in the manner described in (4) above, the Hong Kong dollar liquidity will be made available on the same day (i.e. T+0). Regular overnight DW repo can be processed in the same way as in overnight DW repo using EFBNs. Specifically, banks should input instructions through the CMT. For term repo under the DW, the requests should be made by calling the HKMA dealing room and then faxing a completed form to the HKMA. Upon receipt of the form and subject to confirmation of the availability of the UST in the CMU, the HKMA will contact the concerned bank to confirm the repo. (For details about term DW, please see the following section; for services related to CMU's Euroclear linkage, please contact CMU at 28781465 or 28788150).

6. The schedule of haircuts to be applied to UST is set out at Table 2 of Annex 1.

### **Extended Tenor of Discount Window repo**

7. The liquidity assistance provided to individual licensed banks through the DW will, at the request of individual licensed banks on a case by case basis, be extended from overnight money to include one-month and three-month maturities. Banks requesting a term DW repo should make the request by calling the dealing room of the HKMA at 2878-8104, and the dealing room of the HKMA will confirm with the bank the quantity of the relevant papers required for the requested DW borrowings. The bank should then fill in the application form at Annex 2 for repos using UST or the form at Annex 3 for repo using EFBNs, and fax the form to the HKMA at 2878-8167 (by 12:00 noon for UST held outside the CMU, and by 3:00pm for EFBNs and UST held at the CMU) for processing.

8. The maturity date of the paper used for accessing term DW should be beyond the repurchase date. The minimum size of each request for term DW repo transactions is HK\$20 million. The HKMA reserves the right to vary the minimum transaction size as it deems appropriate.

### **Discount Rate**

9. The interest rate at which banks may obtain overnight liquidity through the DW, whether using Exchange Fund paper or US Treasuries, is determined as the Base Rate.

10. The interest rate at which banks may obtain one-month or three-month term liquidity through the DW, whether using Exchange Fund paper or US Treasuries, is determined as Base Rate + 0.25%. Interest will accrue on a daily basis.

11. The two-tier structure of the Discount Rate applicable for different percentage thresholds of holdings of Exchange Fund papers by the banks will be removed. In other words, the interest rate charged at Discount Window borrowing will no longer be determined by the percentage of Exchange Fund paper holdings being used by a bank for accessing the DW.

### **Operations of the Expanded Discount Window**

12. The HKMA will approach the eligible banks for signing of the relevant master repo agreement in order to facilitate expanded DW repo transactions. Eligible banks include all banks which maintain a RTGS account with the Exchange Fund.

13. The two tables at Annex 1 summarise the operations of the expanded DW and the applicable haircuts.

14. To reduce possible abuse, the HKMA may obtain information from banks which wish to access Discount Window for term borrowings or by using UST for repos.

15. The HKMA will keep the facility under review and make adjustments when necessary, including possibly a suitable cap on the amount of UST used for access to DW.

### **Foreign Exchange Swaps**

16. The HKMA will, in response to requests from individual licensed banks and when it considers necessary, conduct foreign exchange swaps between the US dollar and HK dollar with individual licensed banks to provide HKD liquidity. The maturity of the swap will be up to and including three months. The interest rates will be determined with reference to market interest rates. Banks requesting a foreign exchange swap should contact the dealing room of the HKMA at 2878-8104.

### **Term lending against collateral**

17. The HKMA will, in response to requests from individual licensed banks and when it considers necessary, lend term money to individual licensed banks against collateral of credit quality acceptable to the HKMA. The interest rate will be

determined with reference to market interest rates. The collateral may include Exchange Fund paper, US Treasury securities and other assets of acceptable quality to the HKMA. The haircuts for the Exchange Fund paper and US Treasury securities will follow Table 2 at Annex 1. Preference would be given to those securities already held in the Central Moneymarkets Unit. The maturity of the lending will be up to and including one month. Banks requesting a term lending should first contact the dealing room of the HKMA at 2878-8104.

### **Disclosure of Currency Board Activities**

18. The HKMA will announce the change in the Aggregate Balance due to the activities arising from the five temporary measures on pages HKMAOOB and HKMAOOC on Reuters. (A mock up is enclosed in Annex 5).

**Table 1: Operations of the Expanded Discount Window**

| Type of eligible instruments |                            | Tenor of the repo through Discount Window                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                              |                            | Overnight                                                                                                                                                                                                                                                                                      | 1- or 3-month                                                                                                                                                                                                                                                                                                                                                                               |
| Exchange Fund paper          |                            | <ul style="list-style-type: none"> <li>• Base Rate</li> <li>• Instructions inputted through the CMT as usual</li> <li>• Hours of operation: 4:30pm-5:30pm</li> <li>• Funds available on T+0 basis</li> </ul>                                                                                   | <ul style="list-style-type: none"> <li>• Base Rate + 0.25%</li> <li>• Calling the HKMA dealing room to make requests</li> <li>• Submission of completed Annex 3 by <u>3pm</u> on each business day</li> <li>• Funds available on T+0 basis</li> <li>• The maturity date of the paper used should be beyond the repurchase date.</li> </ul>                                                  |
| US Treasuries*               | For paper held outside CMU | <ul style="list-style-type: none"> <li>• Base Rate</li> <li>• Calling the HKMA dealing room to make requests</li> <li>• Submission of completed Annex 2 between <u>9am to 12 noon</u> on each business day</li> <li>• Funds available on T+1 basis subject to receipt of securities</li> </ul> | <ul style="list-style-type: none"> <li>• Base Rate + 0.25%</li> <li>• Calling the HKMA dealing room to make requests</li> <li>• Submission of completed Annex 2 between <u>9am to 12 noon</u> on each business day</li> <li>• Funds available on T+1 basis subject to receipt of securities</li> <li>• The maturity date of the paper used should be beyond the repurchase date.</li> </ul> |

|  |                                                           |                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                             |
|--|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | For paper held at CMU using the Euroclear linkage service | <ul style="list-style-type: none"> <li>● Base Rate</li> <li>● Instructions inputted through the CMT</li> <li>● Hours of operation: 4:30pm-5:30pm</li> <li>● Funds available on T+0 basis subject to receipt of securities</li> </ul> | <ul style="list-style-type: none"> <li>● Base Rate + 0.25%</li> <li>● Calling the HKMA dealing room to make requests</li> <li>● Submission of completed Annex 2 by <u>3pm</u> on each business day</li> <li>● Funds available on T+0 basis subject to receipt of securities</li> <li>● The maturity date of the paper used should be beyond the repurchase date.</li> </ul> |
|--|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

\*Note: For the sake of clarity, UST is only eligible for DW repo transactions, but not eligible for accessing the intraday repo facility as described under clause 25.3 of the Central Moneymarkets Unit Services Reference Manual.

**Table 2: Schedule of haircut**

| <b>Type of eligible instruments</b> | <b>Haircuts applicable</b>                                               |
|-------------------------------------|--------------------------------------------------------------------------|
| Exchange Fund paper                 | 2% per number of years to maturity                                       |
| US Treasuries                       | 2% per number of years to maturity, with a minimum haircut of 2% applied |

**Confirmation Form for Overnight /Term \* DW Repo Transaction using US Treasuries**

**To** : **Monetary Authority** **Date** : \_\_\_\_\_  
 (Fax No.: 2878 8167)

**From** : \_\_\_\_\_ (\_\_\_\_\_) \_\_\_\_\_  
 Name of Direct Clearing Member Code

This is to confirm that we have entered an overnight / term\* DW Repo Transaction with the HKMA. Details are as follows:

Trade Date : \_\_\_\_\_ (yyyy/mm/dd)

Purchase Date : \_\_\_\_\_ (yyyy/mm/dd)

Repurchase Date : \_\_\_\_\_ (yyyy/mm/dd)

Repo Rate : \_\_\_\_\_ (%)

Borrowing Amount on Purchase Date : HK\$ \_\_\_\_\_ Mn (Minimum HK\$20mn)

List of securities:

|     | <u>Issue No / ISIN code</u> | <u>Ccy Nominal Amount</u> |
|-----|-----------------------------|---------------------------|
| 1.  |                             |                           |
| 2.  |                             |                           |
| 3.  |                             |                           |
| 4.  |                             |                           |
| 5.  |                             |                           |
| 6.  |                             |                           |
| 7.  |                             |                           |
| 8.  |                             |                           |
| 9.  |                             |                           |
| 10. |                             |                           |

/ cont'd

Securities will be delivered to the HKMA's account via one of the following channels:

- our Account with Fedwire : No. \_\_\_\_\_
- our Custodian : Name & Account \_\_\_\_\_
- our Account with Euroclear / Clearstream\*: No. \_\_\_\_\_
- our CMU Account

Settlement Details of the HKMA:

- HKMA account with Fedwire : No. ABA 021084157 HONG KONG/6000
- HKMA account with Euroclear : No.92844

Person to contact in case of query : \_\_\_\_\_ Phone: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signature(s) or Test Number  
(Tested on total borrowing amount)  
Company Chop

\* Please delete where appropriate



**Confirmation Form for Term DW Repo Transaction using Exchange Fund paper**

**To** : **Monetary Authority** **Date** : \_\_\_\_\_  
 (Fax No.: 2878 8167)

**From** : \_\_\_\_\_ (\_\_\_\_\_) \_\_\_\_\_  
 Name of Direct Clearing Member Code

This is to confirm that we have entered a term DW Repo Transaction with the HKMA. Details are as follows:

Trade Date : \_\_\_\_\_ (yyyy/mm/dd)

Purchase Date : \_\_\_\_\_ (yyyy/mm/dd)

Repurchase Date : \_\_\_\_\_ (yyyy/mm/dd)

Repo Rate : \_\_\_\_\_ (%)

Borrowing Amount on Purchase Date : HK\$\_\_\_\_\_ Mn (Minimum HK\$20mn)

List of securities:

|     | <u>Issue No / ISIN code</u> | <u>Ccy Nominal Amount</u> |
|-----|-----------------------------|---------------------------|
| 1.  |                             |                           |
| 2.  |                             |                           |
| 3.  |                             |                           |
| 4.  |                             |                           |
| 5.  |                             |                           |
| 6.  |                             |                           |
| 7.  |                             |                           |
| 8.  |                             |                           |
| 9.  |                             |                           |
| 10. |                             |                           |

Person to contact in case of query : \_\_\_\_\_ Phone: \_\_\_\_\_

\_\_\_\_\_  
 Authorized Signature(s) or Test Number  
 (Tested on total borrowing amount)  
 Company Chop

**Opening of Euroclear Sub-Accounts Form**

To : Monetary Authority  
Fax : 2878 1676-9

Date: \_\_\_\_\_

From : \_\_\_\_\_ (\_\_\_\_\_)  
(Name of Participant) Code

We request HKMA to open Euroclear sub-account(s) for settlement of Euroclear eligible securities designated for the following accounts:

| <b>CMU<br/>Account Code<br/>(XXXXnnn)</b> | <b>Account Name</b> | <b>Euroclear A/C No.<br/>(to be completed by<br/>HKMA)</b> |
|-------------------------------------------|---------------------|------------------------------------------------------------|
|                                           |                     |                                                            |
|                                           |                     |                                                            |
|                                           |                     |                                                            |
|                                           |                     |                                                            |

\_\_\_\_\_  
Authorised signature(s) or Test Number  
Company Chop

IMPORTANT : For fax or telex transmission, please provide Test Number for zero amount.

## Annex 5

### HONG KONG MONETARY AUTHORITY INTERBANK LIQUIDITY

HK26951

HKMAOOC

CONVERTIBILITY UNDERTAKING  
USD/HKD FOR VALUE SPOT

30 SEP 2008

OFFER RATE: 7.8500

BID RATE : 7.7500

PLEASE SEE <HKMAOOC>  
FOR FORECAST CHANGE  
IN AGGREGATE BALANCE

DISCOUNT WINDOW

BASE RATE:

TODAY'S O/N HIBOR:

HKAB 1-MONTH HIBOR:

(FIGURES BELOW MAY NOT ADD UP DUE TO ROUNDING)

OPENING AGGREGATE BALANCE

CLOSING AGGREGATE BALANCE

CHANGE ATTRIBUTABLE TO :

MARKET ACTIVITIES\*

INTEREST PAYMENT/ISSUANCE OF

EXCHANGE FUND PAPER#

DISCOUNT WINDOW REVERSAL

DISCOUNT WINDOW TODAY

TWI

AGGREGATE BALANCE OF  
SETTLEMENT ACCOUNTS

TIME

09:30 HR

10:00 HR

11:00 HR

12:00 HR

15:00 HR

16:00 HR

\* THIS INCLUDES SPOT FX TRANSACTIONS AND OTHER MARKET ACTIVITIES

# THIS REFERS TO THE INCREASE IN THE AGGREGATE BALANCE DUE TO INTEREST  
PAYMENTS ON EXCHANGE FUND PAPER. THE EARLIEST OPPORTUNITY WILL BE TAKEN  
TO ISSUE NEW EXCHANGE FUND PAPER TO ABSORB SUCH INCREASE IN THE AGGREGATE  
BALANCE.

### HONG KONG MONETARY AUTHORITY FORECAST CHANGE IN AGGREGATE BALANCE ATTRIBUTABLE TO :

HK26951

HKMAOOC

| AS AT 18:00 HR  | FOREX<br>TRANSACTIONS | OTHER<br>MARKET<br>ACTIVITIES | REVERSAL<br>OF DISCOUNT<br>WINDOW | INT PMT &<br>ISSUANCE<br>OF EFBN | FORECAST AGG BAL<br>AFTER DISCOUNT<br>WINDOW REVERSAL |
|-----------------|-----------------------|-------------------------------|-----------------------------------|----------------------------------|-------------------------------------------------------|
| 30 SEP 08       |                       |                               |                                   |                                  |                                                       |
| 30 SEP 08       |                       |                               |                                   |                                  |                                                       |
| 02 OCT 08       |                       |                               |                                   |                                  |                                                       |
| 03 OCT 08       |                       |                               |                                   |                                  |                                                       |
| AFTER 03 OCT 08 |                       |                               |                                   |                                  |                                                       |