

**Exchange Fund
Currency Board Account
as at 31 May 2015
(Expressed in millions of Hong Kong dollars)**

	Notes	31 May 2015 (Market Value)	30 April 2015 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		349,105	350,155
Government-issued currency notes and coins in circulation		11,360	11,419
Balance of the banking system		310,647	310,675
Exchange Fund Bills and Notes issued	3,4	754,444	754,565
Interest payable on Exchange Fund Notes		364	287
Net accounts (receivable)/payable	3,5,7	(1,152)	(1,233)
Total	1,3	1,424,768	1,425,868 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,520,329	1,531,527
Interest receivable on designated US dollar assets		1,078	1,136
Net accounts receivable/(payable)	6	3,685	(6,934)
Total	2	1,525,092	1,525,729 (b)
BACKING RATIO [(b) / (a)] * 100%	8	107.04%	107.00%

Notes :

1. Movements in the Monetary Base during the period were as follows:

	<u>HK\$ million</u>
Balance brought forward	1,425,868
Increase/(decrease) in Certificates of Indebtedness	(1,050)
Increase/(decrease) in Government-issued currency notes and coins in circulation	(59)
Net issue/(net redemption) of Exchange Fund Bills and Notes	(14)
Accrued interest on Exchange Fund Notes	84
Settlement of accrued interest on Exchange Fund Notes	(7)
Amortised discount/(premium) on Exchange Fund Bills and Notes	23
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(130)
Settlement of accrued interest income/(expenses) on interest rate swaps	49
Net interest expense/(income) on interest rate swaps	(36)
Revaluation losses/(gains) relating to interest rate swaps	68
Increase/(decrease) in balance of the banking system other than due to Discount Window Operations	(28)
Balance carried forward	<u>1,424,768</u>

2. Movements in the Backing Assets during the period were as follows:

	<u>HK\$ million</u>
Balance brought forward	1,525,729
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	(1,050)
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	(59)
Interest from investments	543
Revaluation gains/(losses) relating to investments	(71)
Balance carried forward	<u><u>1,525,092</u></u>

3. Discount Window Operations:

- (i) Discount Window Operations involve Hong Kong dollar overnight advances made to banks by way of crediting their accounts maintained with the HKMA (which is part of the balance of the banking system) on discounting Exchange Fund Bills and Notes. In accordance with generally accepted accounting practice, the Exchange Fund Bills and Notes discounted with the HKMA are not accounted for as reductions in the liabilities of the HKMA but are regarded as securities held against the advances so made.
- (ii) For the purpose of this Account, the advances to banks secured on Exchange Fund Bills and Notes are shown as deductions in arriving at the Monetary Base. There were no such advances at 31 May and 30 April 2015.

4. Exchange Fund Bills and Notes issued:

- (i) Starting from 1 April 1999, interest payments on Exchange Fund Bills and Notes have been allowed to increase the amount of outstanding Exchange Fund paper.
- (ii) Exchange Fund Bills and Notes issued include Exchange Fund Bills and Notes held as assets of the Exchange Fund.

5. In accordance with the accounting policies adopted by the Exchange Fund, Exchange Fund Bills and Notes issued on tender date but not yet settled are included in "Exchange Fund Bills and Notes issued". For the purpose of this Account, the corresponding accounts receivable are shown as deduction in arriving at the Monetary Base. There were no such receivables at 31 May and 30 April 2015.

6. This represents the net amount of receivable and payable for unsettled transactions of investments and issuance/redemption of Certificates of Indebtedness.

7. Starting from June 2001, Hong Kong dollar interest rate swaps have been used as a means to manage the cost of issuing Exchange Fund Notes. For the purpose of this Account, interest payable/(receivable) and revaluation losses/(gains) on these interest rate swaps are shown as a component of the Monetary Base and are included in "Net accounts (receivable)/payable".

8. It should be noted that the whole of the Exchange Fund assets, not just the Backing Assets, are available for the purpose of defending the linked exchange rate.