

FOREWORD TO THE SECOND EDITION

Over the years, Hong Kong's monetary and banking system has accumulated a variety of technical terms that play an essential role in defining and explaining how the system works. Some of these are general terms that have an important application to Hong Kong. Others are specific terms that are either unique to Hong Kong or have a distinct meaning within Hong Kong. With a certain amount of effort, it has always been possible to track down these terms and their definitions by reference to legislation, technical guides or other sources. But there has never been a convenient publication that has brought these terms together in one place.

The HKMA's *Guide to Hong Kong Monetary and Banking Terms* is an attempt to go some way towards filling the gap. It presents the more common and essential terms in a single booklet, and provides a brief definition of each term in English and Chinese. This small work cannot, of course, claim to be an exhaustive survey. Nor can it possibly be the last word on the subject. Many existing terms are not included, and new terms will undoubtedly be coined as Hong Kong's monetary and banking system continues to develop.

This is the second edition of the *Guide*, which was first published in May 1999. It is a revised, much expanded edition, with over 40 entirely new terms, including items on recent developments such as Hong Kong's US dollar payment system, electronic banking, the proposed credit reference agency, and deposit insurance schemes. The *Guide* is being developed in an interactive format, which will enable rapid cross-referencing to other material both within the *Guide* and elsewhere on the HKMA's website (www.hkma.gov.hk). The interactive version will be available on our website by the end of 2000. Many readers will want to keep a hard copy available on their desks, but I strongly recommend that you try out the new interactive version, which has the further advantage of being in full colour.

Many of the revisions in this second edition result from suggestions received from users of the first edition. We are most grateful for these suggestions and we welcome further comments and ideas about how this *Guide* may be further improved and expanded.

Joseph Yam

Chief Executive

Hong Kong Monetary Authority

November 2000

NOTES FOR USERS

1. This *Guide* includes the following terms:
 - (a) *general* technical terms that have an important application to Hong Kong's monetary and banking systems; and
 - (b) *specific* terms that have a distinct meaning within Hong Kong's monetary and banking system.
2. The terms in English are in alphabetical order.
3. Separate definitions are given in the *Guide* of terms appearing in **bold type** within the text of any definition.

This *Guide* is provided for information only. While every effort has been made to ensure that its contents are accurate, the *Guide* is not intended to be comprehensive. Nor is it intended to provide advice applicable in any given circumstances.

GUIDE TO HONG KONG MONETARY AND BANKING TERMS

ACCOUNTING ARRANGEMENTS (會計安排)

An agreement reached in July 1988 between the Financial Secretary, as Controller of the **Exchange Fund**, and The Hongkong and Shanghai Banking Corporation Limited (HSBC), as Management Bank of the Clearing House of the **Hong Kong Association of Banks (HKAB)**. The agreement required the Hongkong Bank to open an account with the Exchange Fund. The balance in that account ('the Balance') could only be altered by the **HKMA**, (or its predecessor, the Office of the Exchange Fund). The Accounting Arrangements required the HSBC to manage the Net Clearing Balance (NCB) of the rest of the banking system, having regard to the level of the Balance of HSBC's account with the HKMA. If the NCB exceeded the Balance, the HKMA would charge the Hongkong Bank penal interest on the excess amount, which was tantamount to the sum that HSBC had overlent to the rest of the banking system. If the NCB was negative, a penal interest rate would also be charged on the debit balance. The Accounting Arrangements came to an end with the introduction of the **Real Time Gross Settlement (RTGS)** system in December 1996, which requires all **banks** to maintain a **clearing account** with the HKMA.

ACCUMULATED SURPLUS (累計盈餘)

The total net profit earned by an entity as an on-going business. The accumulated surplus of the **Exchange Fund** is the total net profit earned by the Exchange Fund since 6 December 1935.

AGGREGATE BALANCE (總結餘)

The sum of balances in the **clearing accounts** and reserve accounts maintained by commercial banks with the central bank. In Hong Kong, this refers to the sum of the balances in the clearing accounts maintained by the **banks** with the **HKMA** for settling interbank payments and payments between banks and the HKMA. The Aggregate Balance represents the level of interbank liquidity. Since June 1998, the HKMA has been disclosing forecast changes in the Aggregate Balance attributable to the HKMA's foreign exchange transactions as well as issuance of and interest payments on **Exchange Fund** paper on a real time basis through Reuters and Bloomberg.

ARBITRAGE (套戩)

Interest rate arbitrage: Activities that seek to profit from the deviation between the interest rate differential and interest equivalent of the spread between the forward exchange rate and spot exchange rate.

In a broader context, interest rate arbitrage activities may seek to take advantage of the interest rate differential between two currencies. Funds may be switched from one currency to another until the interest rate gap reflects the expected appreciation or depreciation of one currency against the other.

Currency note arbitrage: Activities that seek to profit from the deviation between the official exchange rate applicable to the issue and redemption of **banknotes** and the market exchange rate. For example, when the market exchange rate is stronger than the official exchange rate, banks can buy foreign currency in the foreign exchange market, surrender it to the **Currency Board** in exchange for domestic currency at the fixed exchange rate, and thereby make a profit from the differential between the two rates.

ASIAN DEVELOPMENT BANK (ADB) (亞洲開發銀行)

A multilateral development finance institution founded in 1966 by 31 member governments to promote the social and economic progress of the Asia-Pacific region. It now has 58 member countries – 42 from within the region and 16 from outside. Hong Kong has been a member of the ADB since 1969. The **HKMA** is responsible for matters relating to Hong Kong's participation in the ADB. HKMA officials attend the ADB's Annual Meetings and contribute to discussions on policy issues of common interest. Under the name "Hong Kong, China", the HKMA has continued to participate actively in the ADB's activities after 1 July 1997.

ASIA-PACIFIC ECONOMIC CO-OPERATION (APEC) (亞太經濟合作組織)

Established in 1989, the goal of APEC is to advance Asia-Pacific economic dynamism and sense of community. Hong Kong is a member of APEC and **HKMA** representatives attend the APEC meetings for finance and central bank officials. The HKMA has been the co-ordinator of the APEC Collaborative Initiative on Development of Domestic Bond Market, which produced the *Compendium of Sound Practices – Guidelines to Facilitate the Development of Domestic Bond Markets in APEC Member Economies* in September 1999.

AUTHORISED INSTITUTION (AI) (認可機構)

An institution authorised under the **Banking Ordinance** to carry on the business of taking deposits. Hong Kong maintains a **Three-Tier Banking System**, which comprises **banks, restricted licence banks (RLBs)** and **deposit-taking companies (DTCs)**. Authorised institutions are supervised by the **HKMA**.

AUTOMATIC/AUTOPILOT ADJUSTMENT MECHANISM (自動調節機制)

The main device under a **Currency Board System** for maintaining currency stability. Under Hong Kong's Currency Board system, when **banks** sell US dollars to the **HKMA**, the inflow of funds causes the **Aggregate Balance**, and hence the **Monetary Base**, to expand. This expansion takes place because, in settling the deals, the HKMA credits the **clearing accounts** of these banks with the Hong Kong dollars required for settlement. Conversely, when banks sell Hong Kong dollars to the HKMA, the HKMA debits the clearing accounts of these banks, causing the Aggregate Balance, and hence the Monetary Base, to shrink. The expansion or contraction of the Monetary Base causes domestic interest rates to fall or rise respectively, thus creating the market conditions necessary to counteract the initial capital flows and restore exchange rate stability.

BACKING ASSETS/BACKING PORTFOLIO (支持資產／支持組合)

Specific US dollar assets of the **Exchange Fund** that have been designated to back the **Monetary Base**. A statement of the **Currency Board Account**, which shows the value of the backing assets and the monetary base, has been published monthly since March 1999.

BACKING RATIO (支持比率)

The ratio between the **backing assets** and the **Monetary Base**. When the **Currency Board Account** was first set up, sufficient US dollar assets were transferred to the Currency Board Account to provide a 105% backing of the monetary base (**backing portfolio**). Movements in the backing ratio are subject to the effects of changes in the monetary base, revaluation gains or losses due to interest rate change, and the size of the net interest income. Net interest income refers to the excess of interest earnings from US dollar assets over interest payments on **Exchange Fund** paper. Under the **Linked Exchange Rate system**, although specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate.

Under a new arrangement approved by the Financial Secretary in January 2000, when the backing ratio reaches 112.5% (the upper trigger point), assets will be transferred out of the backing portfolio to the **investment portfolio** of the Exchange Fund assets to reduce the ratio to 110%. Conversely, should the ratio drop to 105% (the lower trigger point), assets will be injected from the investment portfolio to restore it to 107.5%. This arrangement enables a higher investment return on excess assets while ensuring sufficient liquid assets in the backing portfolio.

BANK (銀行)

One of the three types of **authorised institution** in Hong Kong under the **Banking Ordinance**. Banks are the only institutions permitted to carry on **banking business**.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS) (國際結算銀行)

An international organisation founded in 1930 to foster international monetary and financial co-operation and serves as a bank for central banks. The BIS provides secretariat support for G-10 and other central banking committees, which include the **Basel Committee on Banking Supervision**, the **Committee on the Global Financial System**, the Committee on Payment and Settlement Systems, the Committee on Gold and Foreign Exchange, and the Central Bank Governance Steering Group looking into issues relating to the promotion of global financial stability. The **HKMA** joined the BIS in 1996. In July 1998, the BIS opened its first representative office for Asia and Pacific in Hong Kong. Since September 1999, the HKMA has chaired the Central Bank Governance Steering Group. The HKMA now participates in the BIS Annual Meetings, and in some of its committee and working group meetings.

BANKING ADVISORY COMMITTEE (BAC) (銀行業務諮詢委員會)

A committee established under the **Banking Ordinance** to advise the Chief Executive of the Hong Kong Special Administrative Region (CE/SAR) on matters relating to the Banking Ordinance, in particular in relation to **banks** and the carrying on of **banking business**. The Banking Advisory Committee is chaired by the Financial Secretary: its members include the **Monetary Authority** and persons appointed by the Financial Secretary under the delegated authority conferred by the CE/SAR.

BANKING BUSINESS (銀行業務)

Under the **Banking Ordinance**, banking business means the business of either or both of the following:

- (a) receiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than three months;
- (b) paying or collecting cheques drawn by or paid in by customers.

BANKING LICENCE (銀行牌照)

A licence granted by the **Monetary Authority** under the **Banking Ordinance** to a body corporate incorporated in or outside of Hong Kong wishing to carry on **banking business** in Hong Kong. Under the **Minimum Criteria for Authorisation**, certain conditions must be satisfied before a banking licence can be granted.

BANKING ORDINANCE (《銀行業條例》)

The statute providing the legal framework for banking supervision in Hong Kong. The Banking Ordinance provides for the authorisation and supervision of **authorised institutions** so as to provide a measure of protection to depositors and to promote the general stability and effective working of the banking system. The Banking Ordinance is regularly reviewed in the light of practical experience and to take account of developments in the banking industry.

BANKING SECTOR REFORM PROGRAMME (銀行業改革方案)

In response to the recommendations arising from the Banking Sector Consultancy Study commissioned in 1998, the **HKMA** announced in July 1999 a three-year reform programme to further develop the banking sector in Hong Kong. The objectives of the reform programme are twofold: first, to encourage market liberalisation and enhance competitiveness in the banking sector; and, secondly, to strengthen banking infrastructure with the objective of enhancing the safety and soundness of the sector. The package of policy initiatives includes, among others, the relaxation of the “one-building” condition to a “**three-building**” condition, deregulation of the **Interest Rates Rules**, a consultancy study on enhancing **deposit protection** and a study on the establishment of a commercial **credit reference agency**.

BANKING SUPERVISION REVIEW COMMITTEE (BSRC)

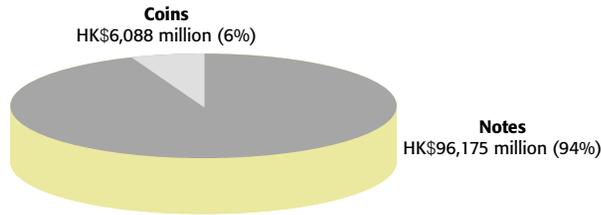
(銀行業監管檢討委員會)

A committee established in 1996 within the **HKMA** to consider, advise and make recommendations to the **Monetary Authority** on authorisation matters under the **Banking Ordinance**. The principal objectives of the Committee are to strengthen internal checks and balances and to ensure that decisions on authorisation matters are taken in a fair and reasonable manner.

BANKNOTE (銀行紙幣)

A note issued by a **bank** promising to pay the bearer the par value of the note on demand.

NOTES AND COINS IN CIRCULATION
(September 2000)



BASE RATE (基本利率)

The interest rate forming the foundation upon which the **Discount Rates** for **repo** transactions through the **Discount Window** are computed. The Base Rate is currently set at *either* 150 basis points above the prevailing **US Fed Funds Target Rate** *or* the average of the five-day moving averages of the overnight and one-month **HIBORs**, whichever is the higher. The **HKMA** announces the Base Rate every day before the interbank market opens in Hong Kong.

BASEL COMMITTEE ON BANKING SUPERVISION (BASEL COMMITTEE) (巴塞爾銀行監管委員會)

A committee formed by the central bank governors of the Group of Ten countries in 1975 to promote international co-operation in banking supervisory matters. The Committee comprises representatives of central banks and supervisory authorities from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the **Bank for International Settlements (BIS)** in Basel, where its permanent Secretariat is located.

BILATERAL NETTING (雙邊淨額結算)

An arrangement under which, in the event of a party's default, the counterparty's claim (or obligation) is to receive (or pay) only the net sum of the marked-to-market values of transactions covered by a legally enforceable bilateral netting arrangement. In 1994, the 1988 **Capital Accord** was amended to broaden the recognition of bilateral netting for capital adequacy purposes. The **HKMA** uses the same basis for recognising netting arrangements in exchange rate, interest rate and derivative contracts entered into by **authorised institutions**.

CAMEL RATING SYSTEM (CAMEL評級制度)

An internationally recognised framework for assessing the **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings and **L**iquidity of **banks**. The primary purpose of CAMEL is to help identify institutions whose weaknesses require special supervisory attention. The overall rating is expressed on a scale of one to five in ascending order of supervisory concern: "1" indicates the highest rating and least degree of concern; "5" represents the lowest rating and highest degree of concern. The **HKMA** has adopted the CAMEL rating system to assess the financial condition and overall soundness of **authorised institutions** in Hong Kong.

CAPITAL ACCORD (《資本協定》)

An accord reached by the **Basel Committee on Banking Supervision** (Basel Committee) in 1988, which has been applied to Hong Kong since late 1989. The Accord sets out the framework for measuring the capital adequacy of **banks** and establishes the capital ratio to be maintained by banks (i.e. the ratio of capital to risk-weighted assets) at a minimum level of 8%. The Accord serves to promote soundness and stability in the international banking system and to reduce sources of competitive inequality among international banks. It has been revised to address the issues of **bilateral netting**, multilateral netting and **market risks** arising from banks' open positions in various financial instruments.

In June 1999, the Basel Committee proposed the implementation of a new capital accord, which aims to refine the risk weighting system and broaden the scope of application of the 1988 Capital Accord. The new accord consists of three pillars:

- minimum capital requirements
- supervisory review of capital adequacy
- market discipline

See also **Capital Adequacy Ratio** (資本充足比率).

CAPITAL ADEQUACY RATIO (CAR) (資本充足比率)

The ratio of an **authorised institution's** capital base to its risk-weighted credit exposures. The method and components used in the calculation are specified in the Third Schedule to the **Banking Ordinance**. Locally incorporated authorised institutions are required to adhere to the minimum 8% capital adequacy ratio, but the **HKMA** may increase the ratio to: (a) not more than 12% in the case of a **bank**; or (b) not more than 16%, in the case of a **deposit-taking company** or a **restricted licence bank**. Each locally incorporated authorised institution is assigned a minimum ratio on an unconsolidated (solo) basis or on a consolidated and unconsolidated basis within the range specified by the Ordinance.

Adjusted CAR: The **market risk** capital adequacy regime requires locally incorporated authorised institutions to maintain adequate capital to support their market risk exposures. The regime involves the calculation of an adjusted CAR which is expressed as the ratio of capital base to the total of market risk and credit risk exposures.

Consolidated basis: In the calculation of the consolidated CAR, the consolidated position of the institution's local and overseas branches and the subsidiaries specified by the HKMA is covered.

Solo basis: In the calculation of the solo CAR, the combined position of the institution's local and overseas branches is covered.

CENTRAL MONEYMARKETS UNIT (CMU) (債務工具中央結算系統)

A clearing system operated by the **HKMA**. The CMU comprises computerised clearing and settlement facilities for **Exchange Fund Bills and Notes**, specified instruments, and debt securities issued by private sector companies. In addition to its role as central custodian and clearing agent for Hong Kong debt securities, the CMU is also responsible for drawing up policies to improve debt market infrastructure.

CERTIFICATES OF INDEBTEDNESS (負債證明書)

Certificates issued by the Financial Secretary under the **Exchange Fund Ordinance**, to be held by **note-issuing banks** as cover for the **banknotes** they issue.

CLASSIFIED LOANS (特定分類貸款)

Loans that are classified as substandard, doubtful or loss under the **HKMA's loan classification system**. *See also* **Loan Classification System** (貸款分類制度).

CLEARING ACCOUNT (結算戶口)

The account maintained by **banks** with the central bank, or clearing house, for the purpose of paying and settling transactions between the banks themselves or between the banks and the central bank.

CLEARING HOUSE OF THE HKAB (銀行公會結算所)

The clearing facility provided by the **Hong Kong Association of Banks (HKAB)** prior to the introduction of the **Real Time Gross Settlement** system in December 1996. This interbank settlement system consisted of a three-tier structure involving the Management Bank of the Clearing House (The Hongkong and Shanghai Banking Corporation Limited), ten Settlement Banks and 171 Subsettlement Banks. The Subsettlement Banks maintained **clearing accounts** with their respective Settlement Banks, which in turn maintained their clearing accounts with the Management Bank. *See also Hong Kong Interbank Clearing Limited (香港銀行同業結算有限公司).*

CLEARING HOUSE AUTOMATED TRANSFER SYSTEM (CHATS) (結算所自動轉帳系統)

A computer-based system established in Hong Kong for the electronic processing and settlement of interbank fund transfers. CHATS operates under a **Real Time Gross Settlement** mode between **banks** in Hong Kong, and is designed for large-value interbank payments. All banks are required to join CHATS and to be connected to the Clearing House computer operated by **Hong Kong Interbank Clearing Limited (HKICL)**.

CODE OF BANKING PRACTICE (《銀行營運守則》)

A voluntary code jointly produced by the **Hong Kong Association of Banks (HKAB)** and the **DTC Association** with the endorsement of the **HKMA**. The Code took effect on 14 July 1997. The Code sets out the minimum standards for a wide range of personal banking services provided by **authorised institutions**, including the operation of accounts and loans, card services, payment services and debt collection. All authorised institutions are expected to comply with the Code, and the HKMA monitors compliance as part of its regular supervision. The code will be reviewed by the HKMA from time to time.

COINAGE ORDINANCE (《硬幣條例》)

A statute enacted in 1994 to make provision for the issue of legal tender coins in Hong Kong.

COINS IN CIRCULATION (流通硬幣)

In Hong Kong, coins in circulation are issued by the **HKMA**. An agent bank is responsible for the storage and distribution of coins to the public. The transactions between the HKMA and the agent bank are settled against US dollars at the rate of HK\$7.80 to one US dollar. Coins in circulation are therefore all fully backed by **foreign reserves** held in the **Exchange Fund**. Changes in the amount of coins in circulation are automatically matched by corresponding changes in the foreign reserves. *See also Banknote (銀行紙幣).*

COMMITTEE ON THE GLOBAL FINANCIAL SYSTEM (CGFS) (全球金融體系委員會)

Formerly known as the Euro-Currency Standing Committee, the CGFS is one of the three standing committees under the **Bank for International Settlements (BIS)**. The Committee has three major tasks: systematic short-term monitoring of global financial system conditions; longer-term analysis of the functioning of financial markets; and the articulation of policy recommendations aimed at improving market functioning and promoting stability. The Committee meets quarterly in Basel. The **HKMA** is not a member but has been regularly invited to participate in CGFS meetings.

CONSOLIDATED SUPERVISION (綜合監管)

The global supervision by the **HKMA** of locally incorporated **authorised institutions**. The supervision embraces, among other matters, capital adequacy, concentration of exposures, and liquidity. It covers an institution's subsidiaries as well as local and overseas branches. The main objective is to enable the HKMA to assess any weaknesses within a banking or financial group that may affect the authorised institution itself, and, if possible, to initiate preventive or remedial action.

CONVERTIBILITY UNDERTAKING (兌換保證)

An undertaking by a central bank or **Currency Board** to convert domestic currency into foreign currency at a fixed exchange rate. In the case of Hong Kong, the **HKMA** undertook on 5 September 1998 to convert the Hong Kong dollar balances held by the **banks** in their **clearing accounts** with the HKMA into US dollars at the fixed exchange rate of HK\$7.75 to US\$1. The exchange rate under the convertibility undertaking moved from HK\$7.75 by one pip (HK\$0.0001) per calendar day effective from 1 April 1999, and converged with the convertibility rate applicable to the issuance and redemption of **Certificates of Indebtedness** at HK\$7.80 on 12 August 2000. Since then, the convertibility rate has remained at HK\$7.80.

CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION (有效監管銀行業的主要原則)

A set of minimum requirements for effective banking supervision published in September 1997 by the **Basel Committee on Banking Supervision**. The principles serve as a basic reference for supervisory and other public authorities around the world. In October 1999, the Basel Committee issued a paper on Core Principles Methodology which elaborates the criteria for determining compliance with the Core Principles.

CORPORATE GOVERNANCE (企業管治)

Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. In the banking industry, corporate governance relates to the manner in which the business and affairs of individual **banks** are directed and managed by their board of directors and senior management. It also provides the structure through which the objectives of the institution are set, the strategy of attaining those objectives is determined and the performance of the institution is monitored.

In May 2000, the **HKMA** issued a set of guidelines on corporate governance applicable to all **authorised institutions** in Hong Kong. The Guideline supersedes the best practice guide issued in 1991 on the duties and responsibilities of directors of authorised institutions.

CREDIT REFERENCE AGENCY (CRA) (信貸資料庫)

An entity that specialises in the collection, maintenance and dissemination of information about borrowers' creditworthiness to facilitate credit assessment by credit providers. The term is used interchangeably with credit bureau. At present, the handling of consumer credit information is governed by the Personal Data (Privacy) Ordinance and the Code of Practice on Consumer Credit Data issued thereunder.

There are a number of privately owned CRAs that handle consumer and/or commercial credit information in Hong Kong. The establishment of a commercial credit reference agency (CCRA) is one of the initiatives being pursued by the **HKMA** as part of the **Banking Sector Reform Programme**. The initiative aims at addressing the need for **authorised institutions** to have better information about their corporate customers, particularly in relation to small and medium sized enterprises in Hong Kong.

CURRENCY BOARD ACCOUNT (貨幣發行局帳目)

The Currency Board Account lists the various liabilities and assets relating to the operations of the **Currency Board System**. On the asset side, it shows **Foreign Reserves** designated to back the **Monetary Base**. On the liability side, it shows the Monetary Base, which includes **banknotes** and **coins** issued, the **Aggregate Balance**, and the outstanding amount of debt paper issued by the Currency Board.

CURRENCY BOARD SYSTEM (貨幣發行局制度)

A monetary system that complies with the **Monetary Rule** requiring that any change in the **Monetary Base** should be matched by a corresponding change in **Foreign Reserves** in a specified foreign currency at a fixed exchange rate. In operational terms, the Rule often takes the form of an undertaking by the Currency Board to convert Domestic Currency into Foreign Reserves at the fixed exchange rate. *See also Automatic/Autopilot Adjustment Mechanism* (自動調節機制).

DELIVERY VERSUS PAYMENT (DVP) (貨銀兩訖)

A securities delivery arrangement in which the delivery of securities takes place as soon as payment is made for them and confirmed final and irrevocable. *See also* **Payment versus Payment (外匯交易同步交收)**.

DEPOSIT INSURANCE SCHEME (存款保險計劃)

A type of **deposit protection scheme** where protection is offered to depositors by a third party that bears the risks and costs of guaranteeing or insuring the deposits covered by the scheme. An example of such a scheme is the Federal Deposit Insurance Corporation of the United States.

DEPOSIT PREFERENTIAL PAYMENT (OR PRIORITY PAYMENT SCHEME) (優先償付計劃)

A preferential payment arrangement under Section 265 of the Companies Ordinance whereby a depositor is entitled to receive priority in the repayment of his or her aggregate deposits, up to a maximum of HK\$100,000, in the winding up of a **bank**. Preferential claims of depositors rank after secured claims, and a number of other preferential claims including wages and employee compensation, and statutory debts due to the Government. Depositors rank prior to unsecured claims of ordinary creditors, including unsecured interbank advances and depositors' claims in excess of the HK\$100,000 cap per depositor. *See also* **Deposit Insurance Scheme (存款保險計劃)**.

DEPOSIT PROTECTION SCHEME (存款保障計劃)

A general term used to describe a formalised system designed to protect depositors if a **bank** fails. A deposit protection scheme can take a number of different forms, including insurance-based systems. *See also* **Deposit Insurance Scheme (存款保險計劃)** and **Deposit Preferential Payment (優先償付計劃)**.

DEPOSIT-TAKING COMPANY (DTC) (接受存款公司)

One of the three types of **authorised institution** in Hong Kong under the **Banking Ordinance**. Deposit-taking companies are restricted to taking deposits of HK\$100,000 or more with an original term to maturity of at least three months. These companies are mostly owned by, or otherwise associated with, **banks**. They engage in a range of specialised activities, including consumer finance, trade finance and securities business. *See also* **Three-Tier Banking System (三級銀行發牌制度)**.

DEPOSIT-TAKING COMPANIES ADVISORY COMMITTEE (DTCAC) (接受存款公司諮詢委員會)

A committee to advise the Chief Executive of the Hong Kong Special Administrative Region (CE/SAR) on matters relating to the **Banking Ordinance**, in particular those relating to the business of **deposit-taking companies** and **restricted licence banks**. The DTCAC is chaired by the Financial Secretary and is composed of the **Monetary Authority** and other members appointed by the Financial Secretary under the delegated authority conferred by the CE/SAR.

DTC ASSOCIATION (DTCA) (存款公司公會)

Established in 1981 under the Companies Ordinance, the DTC Association was originally known as the Hong Kong Association of Restricted Licence Banks and Deposit-Taking Companies. Any **restricted licence bank** or **deposit-taking company** may join the DTCA. The objectives of the DTCA include furthering the general interests of restricted licence banks and deposit-taking companies, serving as an intermediary between the Government and members, and acting as a consultative body to the Government on matters concerning the business of taking deposits in Hong Kong.

DISCOUNT RATE (貼現率)

The interest rate at which **banks** obtain overnight Hong Kong dollar liquidity from the **HKMA** through **repurchase agreements** involving **Exchange Fund** paper or other eligible paper under the **Discount Window**. The Discount Rate consists of two tiers:

Percentage of Exchange Fund Paper held by a bank	Applicable Discount Rate
First 50 per cent	Base Rate
Next 50 per cent	Base Rate plus 5 per cent or overnight HIBOR for the day, whichever is higher

DISCOUNT WINDOW (貼現窗)

In Hong Kong, the facility through which **banks** can borrow Hong Kong dollar funds overnight from the **HKMA** through **repurchase agreements** using eligible securities as collateral.

DOLLARISATION (美元化)

The substitution of the domestic currency by a foreign currency (in most cases, the US dollar) as a unit of account, store of value, and medium of exchange. Dollarisation can be official or unofficial. Official dollarisation refers to the use of a foreign currency as legal tender in the local economy. Unofficial dollarisation refers to the informal, yet popular, use of a foreign currency, usually in parallel with the circulation of the local currency.

EFFECTIVE EXCHANGE RATE INDEX FOR THE HONG KONG DOLLAR (EERI) (港匯指數)

The nominal effective exchange rate indices (NEERI) compiled by the Census and Statistics Department of the Hong Kong Special Administrative Region Government measure movements in the weighted average of the nominal exchange rate of the Hong Kong dollar against the currencies of Hong Kong's principal trading partners.

The real effective exchange rate index (REERI) measures weighted average of nominal effective exchange rates against the currencies of principal trading partners, adjusted for relative movements in price or cost indicators against those selected trading partners. In effect, the measure reflects the movement of prices of Hong Kong's goods and services relative to its major trading partners, and thus is often cited as our indicator of price competitiveness. There is no single measure of REERI, as the index may be constructed using different price indices such as consumer price, export price and unit labour cost.



ELECTRONIC BANKING (e-banking) (電子銀行)

Banking services delivered through electronic channels (such as the Internet, wireless communication networks, telephone lines) or through electronic devices (such as personal computers, mobile phones, telephones, automated teller machines, self-servicing machines, kiosks, television sets, personal digital assistants). In Hong Kong's financial services sector, e-banking usually refers only to financial services, in particular, banking services provided by **authorised institutions** through emerging electronic channels such as the Internet and wireless communication networks. See *also* **Internet Banking** (網上銀行) and **Electronic Money** (電子貨幣).

ELECTRONIC CLEARING (ECG) (電子結算)

A computerised system for clearing and settling various types of low value electronic payments through **Hong Kong Interbank Clearing Limited**. These payments include: autopay, electronic clearing items generated by the securities clearing and settlement system, and the point-of-sale clearing and settlement system. Settlement by ECG is on a next-day batch-run basis.

ELECTRONIC DELIVERY PROGRAM (電子交付計劃)

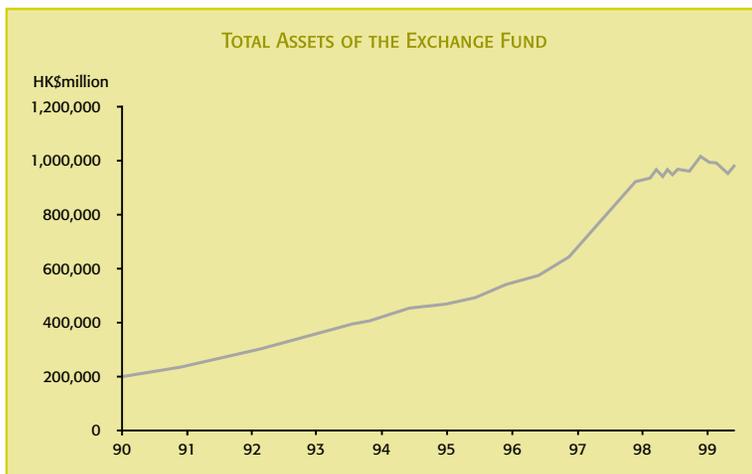
A program for delivering circulars and guidelines to **authorised institutions** through the **HKMA's Private Website**.

ELECTRONIC MONEY (e-money) (電子貨幣)

Electronic money products are defined as stored value or prepaid products in which a record of the funds or value available to the consumer is stored on an electronic device in the consumer's possession. This includes both prepaid cards (sometimes called electronic purses) and prepaid software products that use computer networks such as the Internet (sometimes called digital cash). These products differ from so-called access products that allow consumers to use electronic means of communication to access otherwise conventional payment services (for example, use of the Internet to make a credit card payment or for general "online banking").

EXCHANGE FUND (外匯基金)

A fund established in 1935 by the Currency Ordinance (later renamed the **Exchange Fund Ordinance**) as a reserve to back the issue of Hong Kong's **banknotes**. In 1976 the bulk of the foreign exchange assets of the Government's General Revenue Account and all of the assets of the Coinage Security Fund (i.e. funds received against the issue of coin) were transferred to the Exchange Fund and debt certificates were issued in exchange. Thus, the resources available to regulate the exchange value of the Hong Kong dollar were centralised in the Fund. The Exchange Fund is under the control of the Financial Secretary and is used primarily for 'affecting, either directly or indirectly the exchange value of the currency of Hong Kong'. In addition, it may be used to maintain the stability and integrity of the monetary and financial systems of Hong Kong with a view to maintaining Hong Kong as an international financial centre. The Exchange Fund may be held in Hong Kong currency, foreign exchange, gold or silver, or in such securities or assets as the Financial Secretary considers appropriate after having consulted the **Exchange Fund Advisory Committee**. The **Monetary Authority** is appointed by the Financial Secretary to manage the Exchange Fund, among other duties. *See also* **Exchange Fund Balance Sheet (外匯基金資產負債表)**.



EXCHANGE FUND ADVISORY COMMITTEE (EFAC)

(外匯基金諮詢委員會)

Under section 3(1) of the **Exchange Fund Ordinance**, the Financial Secretary exercises control over the **Exchange Fund** in consultation with an Exchange Fund Advisory Committee. The Financial Secretary is ex-officio chairman of EFAC. The other members are appointed by the Chief Executive of the Hong Kong Special Administrative Region. EFAC advises the Financial Secretary on general policy on the investment of the Exchange Fund.

EXCHANGE FUND BALANCE SHEET (外匯基金資產負債表)

A SAMPLE OF AN EXCHANGE FUND ABRIDGED BALANCE SHEET

Exchange Fund Abridged Balance Sheet

as at 30 September 2000

(Expressed in millions of Hong Kong dollars)

	Notes	30 Sep 2000	31 Aug 2000
ASSETS			
Foreign currency assets	1	805,958	797,881
Hong Kong dollar assets	2	182,945	192,105
Total Assets		<u>988,903</u>	<u>989,986</u>
LIABILITIES AND ACCUMULATED SURPLUS			
Certificates of Indebtedness	3	96,175	93,425
Coins in circulation	3	5,836	5,767
Balance of banking system	3	1,069	1,128
Exchange Fund Bills and Notes	3	106,820	106,220
Placements by other Hong Kong Special Administrative Region government funds		406,343	418,083
Placements by other institutions		53,809	38,127
Other liabilities	4	<u>26,037</u>	<u>29,354</u>
Total Liabilities		<u>696,089</u>	<u>692,104</u>
Accumulated surplus		<u>292,814</u>	<u>297,882</u>
Total liabilities and accumulated surplus		<u>988,903</u>	<u>989,986</u>

Notes:

1. These include US dollar assets for backing the Monetary Base, which amounted to HK\$233,810 million as at end-September 2000 and HK\$230,161 million as at end-August 2000.
2. These include lending collateralised by Exchange Fund paper under the Discount Window, which amounted to HK\$642 million as at end-September 2000 (HK\$326 million as at end-August 2000).
3. A component of the Monetary Base.
4. These include interest payable on Exchange Fund paper and accounts payable under Currency Board operations.

EXCHANGE FUND BILLS AND NOTES (外匯基金票據和債券)

Debt instruments issued by the **HKMA** for the account of the **Exchange Fund**. Introduced in March 1990, the Exchange Fund Bills and Notes programme has expanded over the years. At the end of September 2000, the total amount outstanding was around HK\$106.8 billion, with a maturity profile extending from three months to ten years. These instruments are fully backed by **Foreign Reserves**. The HKMA has undertaken that new Exchange Fund paper will only be issued when there is an inflow of funds, thus enabling the additional paper to be fully backed by foreign reserves. Since 1 April 1999, interest payments on such paper have been allowed to expand the **Monetary Base**. Additional Exchange Fund paper is issued to absorb such interest payments. This is consistent with the **Currency Board** discipline since interest payments on Exchange Fund paper are backed by interest income on the US dollar assets backing the monetary base.

EXCHANGE FUND INVESTMENT LIMITED (EFIL) (外匯基金投資有限公司)

A private limited company established in October 1998 under the Companies Ordinance by the Government of the Hong Kong Special Administrative Region to manage the holdings in Hang Seng Index constituent stocks acquired for the account of the **Exchange Fund** in August 1998. EFIL also manages the portfolio of Hong Kong equities transferred from the **Land Fund** to the Exchange Fund in November 1998. Directors of EFIL are drawn from among distinguished members of the community and include Members of the Legislative Council. EFIL is registered as an Investment Adviser under the Securities Ordinance, and is subject to regulation by the Securities and Futures Commission. In January 1999, EFIL was designated as a public body by the Chief Executive in Council under the Prevention of Bribery Ordinance. *See also* **Tracker Fund of Hong Kong (盈富基金)**.

EXCHANGE FUND ORDINANCE (《外匯基金條例》)

A statute originally enacted as the Currency Ordinance of 1935. The Exchange Fund Ordinance makes provision for the establishment and management of the **Exchange Fund** and the employment of its assets. The Ordinance requires that the Exchange Fund should be used primarily for 'affecting, either directly or indirectly the exchange value of the currency of Hong Kong and for other purposes incidental thereto' and, having regard to that primary purpose, for maintaining the stability and integrity of the monetary and financial systems of Hong Kong with a view to maintaining Hong Kong as an international financial centre. It also empowers the Financial Secretary to appoint the **Monetary Authority** to manage the Exchange Fund, among other duties.

EXECUTIVES' MEETING OF EAST ASIA-PACIFIC CENTRAL BANKS (EMEAP) (東亞及太平洋地區中央銀行會議)

A forum of central banks and monetary authorities in the East Asia and Pacific region established in 1991. EMEAP's primary objective is to strengthen co-operation among its members. The eleven members include the Reserve Bank of Australia, People's Bank of China, **HKMA**, Bank Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and Bank of Thailand. Three working groups have been established, on **payment systems**, financial market development, and banking supervision. The HKMA has chaired the Working Group on Banking Supervision, and has participated in the other two working groups as members.

FINANCIAL ACTION TASK FORCE (FATF)

(打擊清洗黑錢財務行動特別組織)

An inter-governmental body established in 1989 to develop and promote policies to combat **money laundering**. At the end of 1998 the FATF comprised representatives from 26 governments and two regional organisations, covering the world's major financial centres. Hong Kong has been a member of the FATF since 1991 and fully subscribes to the FATF's Forty Recommendations for combating money laundering.

FINANCIAL DISCLOSURE (披露財務資料)

Authorised institutions incorporated in Hong Kong (except for the smaller **restricted licence banks** and **deposit-taking companies**) are required to disclose adequate financial information, including profit and loss accounts, balance sheets, cash flow statements and off-balance sheet exposures in their audited annual accounts and their annual reports. The objective of financial disclosure is to increase the transparency of the operations and financial condition of authorised institutions. Detailed disclosure requirements are specified under the **Guideline on Financial Disclosure by Locally Incorporated Authorised Institutions**.

Overseas incorporated authorised institutions (except those which meet certain exemption criteria) are also expected to issue a Disclosure Statement on a half-yearly basis covering selected key financial information drawn from the Guideline. The disclosure by a foreign authorised institution covers the size and nature of its operation in Hong Kong as well as the financial strength of the overseas institution as a whole.

FINANCIAL STABILITY FORUM (FSF) (金融穩定論壇)

A forum formed by the G-7 countries (the United States, Japan, Germany, Britain, France, Canada and Italy) in April 1999 in the aftermath of the global financial crisis to assess issues affecting the global financial system, and to identify and oversee the action needed to address these issues. The Forum comprises the national authorities of G-7 responsible for financial stability and international regulatory groups. At the Cologne Economic Summit in June 1999, G-7 finance ministers agreed to broaden the Forum to include the four systemically significant financial centres of Hong Kong, Australia, Singapore and the Netherlands. The **HKMA** now attends the FSF regular and special meetings to review the implementation of policy recommendations resulting from the Forum's discussions as well as to exchange views on potential vulnerabilities in the global financial system.

FISCAL RESERVE ACCOUNT (財政儲備帳)

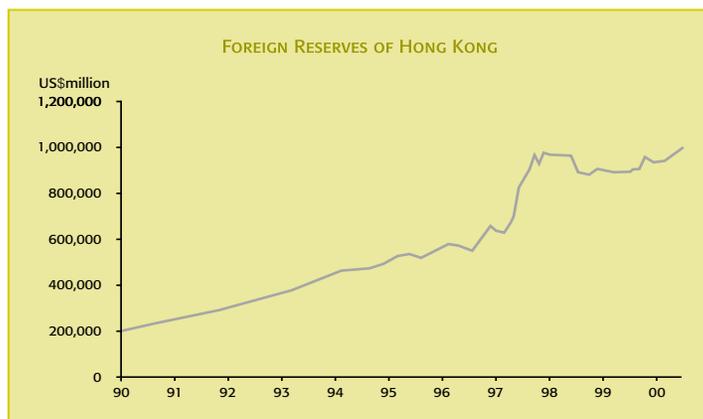
The account held by the Hong Kong Special Administrative Region Government for accumulating its fiscal surpluses. In 1976 the bulk of the foreign exchange assets of the Government's General Revenue Account were transferred to the **Exchange Fund**. From then onwards, the Government has placed the surpluses of the General Revenue Account with the Exchange Fund.

'FIT AND PROPER' TEST (「適當人選」準則)

The **HKMA** must be satisfied that any person who is, or is to be, a chief executive, director or controller of an **authorised institution** should be a 'fit and proper' person to hold that position. In applying the fit and proper test, the HKMA generally takes into account the following factors: the person's reputation and character, the person's knowledge and experience, and past record, if any, of non-compliance or criminal activity.

FOREIGN RESERVES (外匯儲備)

The stock of foreign assets held by a government as investments, and used, where necessary, in financial transactions to support the exchange rate of the domestic currency. Foreign reserves are also used for making payments in foreign currencies without the need to sell the domestic currency in the market. *See also* **Exchange Fund Balance Sheet** (外匯基金資產負債表).



GUIDE TO APPLICANTS (《申請成為認可機構的指引》)

A publication by the **HKMA** providing guidance to institutions seeking authorisation under the **Banking Ordinance** about the scheme of supervision contained in the Ordinance and the policies and approach of the **Monetary Authority** in implementing it.

GUIDELINE ON FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS (《本地註冊認可機構披露財務資料指引》)

A guideline issued by the **HKMA** setting out the minimum standards that the HKMA expects **authorised institutions** to adopt in relation to the information disclosed in their annual accounts. The Guideline is revised regularly to take into account international accounting standards with a view to improving market transparency. The HKMA expects all authorised institutions incorporated in Hong Kong, except the smaller **restricted licence banks** and **deposit-taking companies**, to comply with the Guideline.

HOME SUPERVISION (註冊地監管)

The monitoring of **authorised institutions** by the banking supervisory authority in the place where the authorised institution is incorporated. The **HKMA** is the home supervisor to authorised institutions incorporated in Hong Kong and exercises **consolidated supervision** over these authorised institutions and their subsidiaries as well as over their local and overseas branches. *See also* **Host Supervisor (所在地監管機構)**.

HONG KONG ASSOCIATION OF BANKS (HKAB) (香港銀行公會)

A statutory body established in 1981 under the Hong Kong Association of Banks Ordinance (HKAB Ordinance) to replace the Hong Kong Exchange Banks Association. All **banks** are required to become members of the HKAB and to observe the rules made by the Association under the HKAB Ordinance. The main objects of the HKAB, among others, are to further the interests of banks, to make rules for the conduct of the business of banking, to act as an advisory body to its members in matters concerning the business of banking, and to provide facilities for the clearing of cheques and other instruments. *See also* **Hong Kong Interbank Clearing Limited (香港銀行同業結算有限公司)** and **Interest Rates Rules (《利率規則》)**.

HONG KONG INSTITUTE FOR MONETARY RESEARCH (HKIMR) (香港金融研究中心)

An institute established in August 1999 with the objective of conducting research in the fields of monetary policy, banking and finance that is of strategic importance to Hong Kong and the Asian region. The Institute invites distinguished visiting fellows as well as local academics and researchers to undertake research on issues relating to monetary and financial developments in Hong Kong and the region. The Institute is affiliated to the **HKMA** and is funded by grants from the **Exchange Fund**.

HONG KONG INTERBANK CLEARING LIMITED (HKICL) (香港銀行同業結算有限公司)

A private company jointly owned by the **HKMA** and the **Hong Kong Association of Banks (HKAB)**. HKICL was established in May 1995 to take over in phases the clearing functions provided by the former Management Bank of the **Clearing House**, The Hongkong and Shanghai Banking Corporation Limited. This process was completed in April 1997. HKICL provides interbank clearing and settlement services to all **banks** in Hong Kong and operates a central clearing and settlement system for public and private debt securities on behalf of the **HKMA**.

HONG KONG INTERBANK OFFERED RATE (HIBOR)

(香港銀行同業拆息)

The rate of interest offered on Hong Kong dollar loans by **banks** in the interbank market for a specified period ranging from overnight to one year.

HONG KONG MONETARY AUTHORITY (HKMA)

(香港金融管理局／金管局)

The government authority in Hong Kong with responsibility for maintaining currency and banking stability. The HKMA was established on 1 April 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking. Its specific functions and objectives are:

- to maintain currency stability, within the framework of the **linked exchange rate** system, through sound management of the **Exchange Fund**, monetary policy operations and other means deemed necessary;
- to promote the safety and stability of the banking system through the regulation of **banking business** and the business of taking deposits, and the supervision of **authorised institutions**; and
- to enhance the efficiency, integrity and development of the financial system, particularly **payment** and settlement arrangements.

The Chief Executive of the HKMA is the **Monetary Authority** appointed by the Financial Secretary, who is advised by the **Exchange Fund Advisory Committee** on matters relating to the control of the Exchange Fund and on the operation of the HKMA. The HKMA is organised into seven departments (the Banking Supervision Department, Banking Policy Department, External Department, Research Department, Reserves Management Department, Monetary Policy and Markets Department and Corporate Services Department) and an office of the General Counsel.

HONG KONG MORTGAGE CORPORATION LIMITED (HKMC)

(香港按揭證券有限公司)

A public limited company incorporated under the Companies Ordinance and wholly owned by the Government through the **Exchange Fund**. The Hong Kong Mortgage Corporation was incorporated in March 1997 with a view to developing Hong Kong's secondary mortgage market. Its business is being developed in two phases. The first phase involves the purchase of mortgage loans for its own portfolio, which it funds largely through the issuance of unsecured debt securities. In the second phase, the HKMC securitises mortgages into **Mortgage Backed Securities** and offer them for sale to investors. In March 1999, the HKMC also launched the **Mortgage Insurance Programme** to provide insurance protection to banks against the risk of payment default by borrowers.

HONG KONG NOTE PRINTING LIMITED (HKNPL)

(香港印鈔有限公司)

HKNPL prints all of the **banknotes** for Hong Kong's three **note-issuing banks**. HKNPL's note printing plant at Tai Po was purchased by the Hong Kong Government from De La Rue in April 1996 through the **Exchange Fund**. HKNPL is majority owned by the Government, with minority shareholdings by the three note-issuing banks and China Banknote Printing and Minting Corporation. Normally, the company prints a total of about 320 million banknotes per year.

HOST SUPERVISOR (所在地監管當局)

A banking supervisory authority in the place where a branch of a foreign incorporated **authorised institution** is located. In Hong Kong, the **HKMA** is the host supervisor to branches of foreign banks. The HKMA's approach to the supervision of branches of foreign banks is broadly in line with that applied to locally incorporated institutions except that capital-based supervisory requirements are not applied to such branches. See also **Home Supervision (註冊地監管)**.

INDEPENDENT NON-EXECUTIVE DIRECTOR (獨立非執行董事)

A director of the **authorised institution** who is independent of management and free from any business or other relationship which could materially interfere with the exercise of his or her independent judgement. An independent non-executive director is not an employee of the institution and does not have any management responsibility in the institution he or she serves. The role of such a director is to provide checks and balances to ensure that the institution operates in a safe and sound manner and that the interests of the institution are protected. *See also Corporate Governance (企業管治).*

INTERBANK MONEY MARKET (銀行同業貨幣市場)

The market in which **banks** borrow or lend money among themselves to accommodate short-term shortages or to dispose productively of surplus funds in their **clearing accounts**.

INTEREST RATES RULES (《利率規則》)

See Rules on Interest Rates and Deposit Charges (《利率及存款收費規則》).

INTERNATIONAL MONETARY FUND (IMF) (國際貨幣基金組織)

Established in 1946, the IMF is an international organisation of 182 member countries to promote international monetary co-operation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries under adequate safeguards to help ease balance of payments adjustment. Although not a member, Hong Kong has participated in the activities or discussions of the IMF as part of the UK Delegation prior to 1 July 1997 and as part of the People's Republic of China Delegation thereafter. The **HKMA** co-ordinates matters relating to the participation of Hong Kong in the IMF. These include attending its Annual Meetings, handling the **IMF Article IV Consultation** on Hong Kong, and subscribing to the **IMF SDDS** requirements in the dissemination of official data. In September 2000, the Sub-Office of the IMF's Resident Representative Office in Beijing commenced its operation in Hong Kong. The Sub-Office is responsible for gathering information on financial and monetary developments in Asia and analysing their impacts on Hong Kong.

IMF ARTICLE IV CONSULTATION (國際貨幣基金組織第四條款磋商)

Under Article IV of the **IMF** Articles of Agreement, the IMF holds bilateral discussions with member economies, usually every year. A staff team visits the economy, collects economic and financial information, and discusses with officials the economy's economic developments and policies. On return to headquarters, the staff team prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarises the view of Directors, and this summary is transmitted to the economy's authorities. The **HKMA** co-ordinates the Consultation on Hong Kong, which takes place each year in the fourth quarter. Hong Kong also participates in the IMF pilot project for the voluntary release of the Article IV Staff Report, the first of which was published in March 2000.

IMF SPECIAL DATA DISSEMINATION STANDARD (SDDS) (國際貨幣基金組織公布數據特殊標準)

The SDDS was established in 1996 to guide member economies in the dissemination of economic and financial data to the public. This increases the transparency of economies seeking access to international capital markets. Hong Kong subscribed to the SDDS in early 1997. Hong Kong has complied with the enhanced SDDS and published the first set of data on **foreign reserves** and foreign currency liquidity in end-May 2000. At present, the **HKMA** releases every month Hong Kong's latest Foreign Currency Reserve Assets figures, **Exchange Fund Balance Sheet** data, and the **Currency Board Account**, in addition to the SDDS Template on International Reserves and Foreign Currency Liquidity. The dissemination of these data is made in accordance with the **HKMA's** policy of maintaining a high level of transparency.

INTERNET BANKING (網上銀行)

A form of **electronic banking** where banking services can be accessible by customers through the Internet.

INVESTMENT BENCHMARK (投資基準)

A yardstick for directing the long-term investment strategy and evaluating the investment return on a portfolio. Based on the objectives of the portfolio, the investment benchmark is a basket of investment assets appropriate for the risk tolerance for the portfolio. To evaluate the performance of the investment manager, the actual return of the portfolio is compared to the return on the investment benchmark.

INVESTMENT PORTFOLIO (投資組合)

The portion of **Exchange Fund** assets apart from the **backing portfolio**. The assets are invested in Organisation for Economic Co-operation and Development bond and equity markets to preserve the long-term purchasing power of these assets. *See also Foreign Reserves* (外匯儲備).

JOINT FINANCIAL INTELLIGENCE UNIT (JFIU) (聯合財富情報組)

A unit, jointly operated by the Police and Customs and Excise Department, responsible for receiving suspicious transaction reports in relation to suspected **money laundering** and for referring such reports to the appropriate enforcement departments for investigation. The unit also provides advice on tackling money laundering generally and offers practical guidance and assistance to the financial sector on the subject.

LAND FUND (土地基金)

The Hong Kong Special Administrative Region (SAR) Government Land Fund Trust was established on 13 August 1986. The Land Fund Trust was set up to facilitate the management of the Hong Kong SAR's share of revenue obtained from land sales during the period commencing from the entry into force of the Joint Declaration (27 May 1985) until China's resumption of exercise of sovereignty on 1 July 1997. On the establishment of the Hong Kong SAR on 1 July 1997, the assets of the Land Fund Trust were vested in the Hong Kong SAR Government. The Chief Executive of the Hong Kong SAR appointed the Financial Secretary as the public officer to receive, hold and manage the fund as part of the Hong Kong SAR Government reserves. Subsequently, the Land Fund was established by a resolution made and passed by the Provisional Legislative Council under section 29 of the Public Finance Ordinance. Between 1 July 1997 and 31 October 1998, under the direction of the Financial Secretary, the fund was managed by the **HKMA** as a portfolio separate from the **Exchange Fund**. On 1 November 1998, the assets of the Land Fund were merged into Exchange Fund and have since then been managed as part of the **Investment Portfolio** of the Exchange Fund.

LEGAL TENDER NOTES ISSUE ORDINANCE

(《法定貨幣紙幣發行條例》)

A statute to regulate the issue of **banknotes** and currency notes. Under the Ordinance, the banknotes issued by the Bank of China, the Standard Chartered Bank and The Hongkong and Shanghai Banking Corporation Limited are legal tender within Hong Kong.

LENDER OF LAST RESORT (最後貸款人)

An institution, normally a central bank, that stands ready to accommodate demands for funds in times of crisis or liquidity shortage. The institution normally discharges this function either through open-market purchases of assets of acceptable quality from the banking sector or by making loans through the **discount window** to solvent but temporarily illiquid **banks**, usually at above-market rates and against good collateral.

LICENSED BANK (持牌銀行)

One of the three types of **authorised institution** in Hong Kong licensed under the **Banking Ordinance**. Licensed banks are the only institutions permitted to carry on **banking business** in Hong Kong. This term is often used interchangeably with **bank**. See also **Three-Tier Banking System (三級銀行發牌制度)**.

LINKED EXCHANGE RATE SYSTEM (聯繫匯率制度)

A form of **Currency Board System** adopted in Hong Kong on 17 October 1983 requiring that the issue and redemption of **Certificates of Indebtedness** (for backing the **banknotes**) by the **note-issuing banks** be made against US dollars at the fixed exchange rate of HK\$7.80 to US\$1. There have been significant modifications to the system since 1983.

LIQUIDITY ADJUSTMENT FACILITY (LAF) (流動資金調節機制)

An earlier Hong Kong version of a **Discount Window**, established in 1992. Under the facility, **banks** could borrow overnight funds from the **HKMA** through **repurchase agreements** of eligible securities at the Offer Rate set by the HKMA. They could also place surplus funds overnight with the HKMA at the Bid Rate. The LAF was replaced by the Discount Window in September 1998.

LIQUIDITY ADJUSTMENT WINDOW (流動資金調節窗)

A facility that allows **banks** to obtain intraday liquidity from the **HKMA** through **repurchase agreements** involving **Discount Window** eligible securities.

LIQUIDITY RATIO (流動資產比率)

All **authorised institutions** in Hong Kong are required to meet a minimum monthly average liquidity ratio of 25%. This is calculated as the ratio of liquefiable assets (e.g. marketable debt securities and loans repayable within one month subject to their respective liquidity conversion factors) to qualifying liabilities (basically all liabilities due within one month). The method of calculation and its components are specified in the Fourth Schedule to the **Banking Ordinance**.

LOAN CLASSIFICATION SYSTEM (貸款分類制度)

A system introduced by the **HKMA** in December 1994 requiring **authorised institutions** to report on a quarterly basis loans (including investment debt securities) and provisions made against them under the following five categories:

Pass: Loans for which borrowers are current in meeting commitments and for which the full repayment of interest and principal is not in doubt.

Special Mention: Loans with which borrowers are experiencing difficulties and which may threaten the authorised institution's position.

Substandard: Loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment.

Doubtful: Loans for which collection in full is improbable and the authorised institution expects to sustain a loss of principal and/or interest, taking into account the market value of collateral.

Loss: Loans that are considered uncollectable after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Loans that are classified as substandard, doubtful or loss are collectively known as **Classified Loans**.

LOAN-TO-DEPOSIT RATIO (貸存比率)

The ratio of the *amount of loan* to the *amount of deposit*. This is a measure of liquidity in the banking sector.

LOAN-TO-VALUE RATIO (貸款與估值比率)

The ratio of *money borrowed* to *fair market value of collateral*, usually in reference to real property. Since November 1991, the banking sector has voluntarily adopted a 70% loan-to-value ratio for residential mortgage lending. This was subsequently endorsed by the Government and incorporated in the **HKMA's** guideline on property lending.

LOCAL REPRESENTATIVE OFFICE (LRO) (本地代表辦事處)

A **bank** incorporated outside Hong Kong may apply to the **HKMA** for approval for the establishment of a Local Representative Office. Although exceptions may apply, the HKMA's general policy is that an overseas bank should maintain a Local Representative Office for a minimum of one to two years before it can be considered for authorisation. A Local Representative Office is required to confine its business to representational and liaison activities and must not engage in **banking business**.

MANILA FRAMEWORK GROUP (MFG) (馬尼拉方案小組)

A forum comprising senior finance and central bank officials from 14 economies (namely Australia, Brunei Darussalam, Canada, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and US) to discuss matters affecting financial stability in the region. It was established in November 1997 after the eruption of the Asian financial crisis. Senior representatives from the **Asian Development Bank**, **Bank for International Settlements**, **International Monetary Fund** and **World Bank**.

MARKET RISK (市場風險)

In relation to the calculation of an adjusted **capital adequacy ratio**, market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices and rates. These risks include the risks pertaining to interest rate related instruments and equities in the trading book, and foreign exchange risk and commodities risk throughout the **authorised institution**.

MINIMUM CRITERIA FOR AUTHORISATION (認可的最低準則)

The minimum criteria that new entrants must satisfy in order to be, and continue to be, authorised under the **Banking Ordinance**. These criteria are listed under the Seventh Schedule to the Banking Ordinance. The criteria cover a broad range of considerations and focus on the general quality and ability of the applicant to conduct **banking business** or deposit-taking business in Hong Kong. In addition to the general requirement that the applicant's business should be conducted with integrity, prudence and competence, the criteria include such considerations as adequacy of **home supervision**; the **'fit and proper' test** for directors, controllers and chief executives; and adequate accounting systems, financial resources, liquidity, control of large exposures, and provisions against loans.

MONETARY AUTHORITY (金融管理專員)

The person appointed by the Financial Secretary under section 5A of the **Exchange Fund Ordinance** to assist the Financial Secretary in the performance of his functions under that Ordinance and to perform other functions as assigned. The Monetary Authority is also responsible under the **Banking Ordinance** for the promotion of the general stability and effective working of the banking system. *See also Hong Kong Monetary Authority* (香港金融管理局).

MONETARY BASE (貨幣基礎)

A part of the monetary liabilities of a central bank. The Monetary Base is defined, at the minimum, as the sum of the currency in circulation (**banknotes** and **coins**) and the balance of the banking system held with the central bank (the reserve balance or the clearing balance). In Hong Kong, the Monetary Base comprises **Certificates of Indebtedness** (for backing the banknotes issued by the **note-issuing banks**), coins issued, the balance of the **clearing accounts** of **banks** kept with the **HKMA**, and **Exchange Fund Bills and Notes**.

MONETARY RULE (貨幣規則)

Under the **Currency Board System**, the Monetary Rule requires changes in the **Monetary Base** (liabilities of the Currency Board) to be matched by corresponding changes in **Foreign Reserves** in a specified foreign currency (assets of the Currency Board) at a fixed exchange rate.

MONETARY STATISTICS ORDINANCE (《金融資料統計條例》)

A statute enacted in 1980 that provides for the collection of statistical information from **banks** and **deposit-taking companies** by the **Monetary Authority**. Every **authorised institution** is required to submit to the Monetary Authority a return setting out the required statistical information for the purpose of monitoring developments in the monetary sector.

MONEY BROKER (貨幣經紀)

A person who acts as an intermediary between independent counterparties, one of which is an **authorised institution**, in foreign exchange and money market transactions. In Hong Kong, money brokers are required to be approved by the **Monetary Authority** under the **Banking Ordinance**.

MONEY LAUNDERING (清洗黑錢)

The process of changing the identity of the source of illegally obtained money so that it appears to have originated from a legitimate source. See *also* **Financial Action Task Force** (打擊清洗黑錢財務行動特別組織).

MONEY SUPPLY (貨幣供應)

The total stock of money available in the economy. Hong Kong has three measures of money supply:

Money Supply definition 1 (M1): The sum of legal tender notes and coins held by the public plus customers' demand deposits placed with **banks**.

Money Supply definition 2 (M2): M1 plus customers' savings and time deposits with banks plus negotiable certificates of deposit (NCDs) issued by banks held outside the banking sector.

Money Supply definition 3 (M3): M2 plus customers' deposits with **restricted licence banks** and **deposit-taking companies** plus negotiable certificates of deposit (NCDs) issued by these institutions held outside the banking sector.

Among these three series, HK\$M1 exhibits a significant seasonal pattern, whereas there is no strong evidence of seasonality in broad money (HK\$M2 and HK\$M3). Seasonally adjusted series of HK\$M1 and its components (i.e. cash held by the public and demand deposits) are compiled and published by the **HKMA**.

MORTGAGE BACKED SECURITIES (MBS) (按揭證券)

Securities backed by a pool of mortgages. The pool may consist of several thousand mortgages or only a few mortgages. The cash flow of a mortgage backed security depends on the cash flow of the underlying pool of mortgages, which consists of monthly mortgage payments representing interest, the scheduled repayment of principal and any prepayments.

MORTGAGE INSURANCE PROGRAMME (按揭保險計劃)

A type of guarantee that protects lending **banks** against the risk of mortgage payment default by the borrower. It enables banks to accept a lower down payment than would otherwise be required. In effect, mortgage insurance provides what the equity of a higher down payment would provide to banks to cover the additional 'top-up' portion of the loan, as well as some of the accrued interest and expenses related to repossession. In March 1999, the **Hong Kong Mortgage Corporation Limited** launched its Mortgage Insurance Programme to provide this type of insurance in Hong Kong up to a **loan-to-value ratio** of 85%. The Programme was further expanded in August 2000 to include loans with 90% loan-to-value ratio.

NOTE-ISSUING BANKS (發鈔銀行)

Banks that issue **banknotes** that are legal tender. The note-issuing banks in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited, the Standard Chartered Bank, and the Bank of China Hong Kong Branch. In order to issue banknotes in Hong Kong, the note-issuing banks have to place with the **Exchange Fund** an equivalent amount of US dollars at the rate of US\$1 = HK\$7.80 in exchange for **Certificates of Indebtedness**.

OFF-SITE REVIEW (非現場審查)

Off-site assessments made by the **HKMA** of the financial condition and quality of management of an **authorised institution**. Off-site reviews help to detect emerging problems that can be followed up with **on-site examinations** and **prudential meetings**. The scope of an off-site review varies from the regular analysis of banking returns to an extensive annual review of the performance and financial position of a particular authorised institution.

ON-SITE EXAMINATION (現場審查)

An essential part of the banking supervisory process undertaken by the **HKMA**. On-site examinations of books, records and internal controls apply to all **authorised institutions** irrespective of their place of incorporation. In the case of locally incorporated authorised institutions, on-site examinations also extend to their overseas branches and subsidiaries. The frequency of examination varies according to the size, financial standing and internal control systems of the authorised institution concerned. On-site examination provides the opportunity to examine at first hand how an institution is managed and controlled. It is particularly useful for assessing asset quality and the adequacy of internal controls.

PAYMENT SYSTEM (支付系統)

A payment system consists of a set of instruments, banking procedures and, typically, interbank fund transfer systems that ensure the circulation of money. The **HKMA** is the overseeing authority for Hong Kong's payment system. Since 1994, the HKMA has implemented a number of important reforms to Hong Kong's payment system. The most significant of these reforms was the launch in December 1996 of the **Real Time Gross Settlement (RTGS)** system for interbank payments in Hong Kong dollars. This system is widely acknowledged to be one of the most advanced and robust of its kind. See also **US Dollar Clearing System (美元結算系統)**.

PAYMENT VERSUS PAYMENT (PvP) (外匯交易同步交收)

A mechanism in a foreign exchange settlement system to ensure that a final transfer of one currency occurs only if a final transfer of the other currency or currencies also takes place. See also **Delivery versus Payment (貨銀兩訖)**.

PRIVATE WEBSITE (PWS) (專用網站)

A website introduced by the **HKMA** in March 1999 and designed for the exclusive use of all **authorised institutions** in Hong Kong and the HKMA for information dissemination and communication. Through PWS, authorised institutions are able to communicate directly with the HKMA and access all banking returns, application forms, circulars, guidelines and the latest version of software issued by the HKMA.

PRUDENTIAL MEETING (審慎監管會議)

A meeting held by the **HKMA** with the senior management of an **authorised institution**, following an **off-site review**. The meeting enables the HKMA to understand how the institution controls its operations and views its business prospects, and to discuss prudential concerns arising from **on-site examinations** or other sources. A prudential meeting is normally held at least once a year with every authorised institution. In the case of institutions belonging to a banking group, prudential meetings may be held both at the group level and with individual subsidiaries of the group.

PRUDENTIAL SUPERVISION (審慎監管)

The process of ensuring that **authorised institutions** adhere to minimum prudential standards. These standards are imposed either by the **HKMA's** regulatory requirements or through the institution's own internal policies, procedures and controls. The HKMA monitors adherence by authorised institutions to prudential standards through a wide variety of techniques, including **on-site examinations, off-site reviews, prudential meetings**, co-operation with external auditors, and the sharing of information with other supervisors. The objective of prudential supervision is not to prevent all **bank failures** but to ensure that any that do occur are sufficiently limited and infrequent so as not to threaten the stability of the banking system as a whole.

REAL INTEREST RATES (實質利率)

Real interest rates are nominal interest rates adjusted for expected changes in the price level. Real interest rates are often constructed by subtracting observed consumer price inflation from a nominal interest rate. However, conceptually, the inflation component should reflect a forward-looking measure of expected inflation, as opposed to the backward-looking measures commonly used.

REAL TIME GROSS SETTLEMENT (RTGS) (即時支付結算系統)

The continuous settlement of payments on an individual-order basis without netting debits with credits across the books of the central bank. See *also* **Payment System** (支付系統).

REGISTER OF AUTHORISED INSTITUTIONS (認可機構記錄冊)

A register containing particulars of all **authorised institutions**, which the HKMA maintains for public inspection under the provisions of the **Banking Ordinance**.

REPURCHASE AGREEMENT (repo) (回購協議)

A transaction in which one party sells securities to another party in return for cash, with an agreement to repurchase equivalent securities at an agreed price and on an agreed future date. As such, repos may be seen as being akin to collateralised borrowing and lending. Legally, however, the transaction involves an outright sale of the securities that passes full ownership of the securities to the purchaser. The transaction is widely used between a central bank and the money market as a means of relieving short-term shortages of funds in the money market. It thus represents an important tool in monetary management. In Hong Kong, **banks** are allowed to obtain temporary liquidity through the **Discount Window** using repurchase agreements with **Exchange Fund Bills and Notes** as collateral.

RESERVES MANAGEMENT (儲備管理)

The HKMA manages the **Exchange Fund** in accordance with the **Exchange Fund Ordinance**. The day-to-day management of the Fund is carried out by the Reserves Management Department of the HKMA. The principal investment objectives of the Exchange Fund are:

- to preserve the capital of the Fund
- to ensure that the entire **Monetary Base** is at all times fully backed
- to ensure sufficient liquidity for maintaining monetary and financial stability
- to achieve returns on the Fund that will preserve the long-term purchasing power of its assets

RESTRICTED LICENCE BANK (RLB) (有牌照銀行)

One of the three types of **authorised institution** in Hong Kong under the **Banking Ordinance**. A restricted licence bank may take time, call or notice deposits from members of the public in amounts of HK\$500,000 and above without restriction on maturity. Restricted licence banks generally engage in activities such as merchant banking and capital market operations. *See also* **Three-Tier Banking System (三級銀行發牌制度)**.

REVOCAION OF AUTHORISATION (撤銷認可)

The **Banking Ordinance** empowers the **Monetary Authority** to revoke the authorisation of an **authorised institution** if the **minimum criteria for authorisation** are breached. In addition, other grounds for revocation include the provision of materially false, misleading or inaccurate information to the **HKMA**. The grounds on which authorisations may be revoked are specified in the Eighth Schedule to the Banking Ordinance. A decision by the HKMA to exercise its powers of revocation will usually depend on the scope for remedial measures and on whether revocation would be in the interests of depositors and of the stability of the banking system. The authorised institution concerned must cease to carry on the business that was the subject of its authorisation as soon as the revocation becomes effective.

RISK-BASED SUPERVISORY APPROACH (風險為本的監管制度)

An approach adopted by the **HKMA** in its supervision of **authorised institutions** in Hong Kong. Under this approach, the HKMA will assess the risk profile of each institution and ascertain the effectiveness of the institution's systems and procedures to identify, measure, monitor and control risks. A supervisory plan is then formulated for each institution having regard to its risk profile and risk management systems. The approach enables the supervisory process to focus on the areas of greatest risk to an institution and enables the HKMA to be more proactive in taking actions to pre-empt any serious threat to the stability of the banking system, as a result of any current or emerging risks. While banks are subject to many different risks, the HKMA will focus its attention on eight types of banking risks (namely, credit, interest rate, market, liquidity, operational, reputation, legal and strategic risks) in assessing the risk profile of each institution.

RULES ON INTEREST RATES AND DEPOSIT CHARGES (IRRs)

(《利率及存款收費規則》或《利率規則》)

Certain types of Hong Kong dollar deposits offered by **banks** in Hong Kong are subject to Interest Rate Rules (IRRs) issued by the **Hong Kong Association of Banks (HKAB)**. All banks in Hong Kong, as members of HKAB, are required to observe these rules, which generally relate to the maximum rate of interest a bank can offer on certain types of deposits. Progressive deregulation of IRRs has taken place in phases since 1994. At present, the remaining IRRs set the maximum interest rates for savings accounts, and disallow the payment of interest on current accounts. These remaining IRRs are scheduled to be removed in July 2001, subject to the prevailing economic and financial environment.

SPECIAL MENTION LOAN (需要關注貸款)

See **Loan Classification System (貸款分類制度)**.

STORED VALUE CARD (儲值卡)

An instrument which contains prepaid monetary value stored in a magnetic strip or an electronic device embedded on a card which provides users with the ability to make a purchase or exchange value. It is therefore also called an electronic purse. Stored value cards can be single-purpose or multi-purpose. Single-purpose cards are used to purchase goods and services provided only by the issuer of the card, while multi-purpose cards can be used for purchases of goods and services provided not only by the issuer, but also by third parties who are willing to accept the cards for payment. The latter type of card is regulated under the **Banking Ordinance**.

SUB-COMMITTEE ON CURRENCY BOARD OPERATIONS (貨幣發行委員會)

A Sub-Committee established under the **Exchange Fund Advisory Committee** in August 1998 to oversee the operation of the **Currency Board System** in Hong Kong and to recommend to the Financial Secretary, where appropriate, measures to enhance the robustness and effectiveness of Hong Kong's Currency Board arrangements. The Sub-Committee is chaired by the Chief Executive of the **HKMA**. Its members include professionals in the financial industry, academics, and senior officials of the **HKMA**.

SUBMISSION THROUGH ELECTRONIC MEDIA (STEM) (電子媒體提交軟件)

Computer software introduced by the **HKMA** in 1995 to facilitate the submission of returns by **authorised institutions** through floppy diskettes. See *also* **Submission Through Electronic Transmission (電子傳送提交系統)**.

SUBMISSION THROUGH ELECTRONIC TRANSMISSION (STET) (電子傳送提交系統)

A software system launched by the **HKMA** in December 1997 to improve the efficiency and security of the submission of returns by **authorised institutions**. The system, which replaces **Submission Through Electronic Media (STEM)**, allows users to submit returns through electronic transmission. Participating authorised institutions can input and edit banking return data on their computers and transmit the data to the **HKMA** through a secured private network. The possibility of the message being intercepted by unauthorised parties is therefore reduced. In addition, the **STET** system eliminates the physical delivery of hard-copy and diskettes of returns.

SUBSTANDARD LOAN (次級貸款)

See **Loan Classification System** (貸款分類制度).

SUSPENSION OF AUTHORISATION (暫停認可)

Under the **Banking Ordinance**, where the **HKMA's** powers to revoke an authorisation become exercisable, the HKMA may, after consultation with the Financial Secretary, suspend the authorisation of the institution for a period not exceeding six months (which may be extended upon expiration for a further period not exceeding six months). The suspended **authorised institution** must cease to carry on the business for which its authorisation was granted from the date specified by the HKMA. Suspension may be a step towards, or an alternative to, revocation. While it prevents an institution from carrying on banking or deposit-taking business, suspension allows the institution to retain its authorised status: this could be of assistance in a restructuring or rescue operation, for example by making the institution more attractive to a prospective purchaser. See also **Revocation of Authorisation** (撤銷認可).

'THREE-BUILDING' CONDITION (「三家分行」規定)

A condition applicable to overseas-incorporated **banks** licensed in or after 1978 and overseas-incorporated **restricted licence banks** authorised in and after 1990. Institutions subject to this condition may maintain offices in not more than three buildings to which customers and others have access (physical or otherwise) for the purpose of conducting **banking business** (or deposit-taking business in the case of a restricted licence bank) and/or for the arranging or entering into of any other financial transactions. In this context, the word "office" includes any automated teller machine or similar terminal device which provides facilities to customers or others.

THREE-TIER BANKING SYSTEM (三級銀行發牌制度)

Authorised institutions under the **Banking Ordinance** comprise **Banks**, **Restricted Licence Banks (RLBs)** and **Deposit-Taking Companies (DTCs)**, creating a licensing system with three distinct tiers. Restricted licence banks and deposit-taking companies are restricted in the amounts and terms of deposits they may accept, and only banks may operate current and savings accounts. No distinction is made, however, in the types of lending or investment business in which the different tiers of authorised institutions may engage.

TRACKER FUND OF HONG KONG (TraHK) (盈富基金)

A unit trust launched in November 1999 as a disposal programme of the **Exchange Fund Investment Limited (EFIL)** for part of the Hong Kong equity portfolio purchased by the **Exchange Fund** in August 1998 together with the Hong Kong equities transferred from the **Land Fund**. It was launched in the form of an initial public offering and an international offering and is listed on the Hong Kong Stock Exchange.

TRANSFER OF AUTHORISATION (認可的轉讓)

Under the **Banking Ordinance**, the authorisation of an **authorised institution** may be transferred from that institution to another institution. A transfer of authorisation may not take effect until the **HKMA** grants the transfer or until a later date specified by the HKMA. Following the issue of a certificate of transfer by the HKMA, the transferee may exercise the same privileges, and is subject to the same conditions, liabilities and penalties, as the original grantee. The transferor ceases to be authorised, but remains responsible for any liability incurred prior to the transfer.

TRIPARTITE MEETING (三方聯席會議)

An annual meeting between the **HKMA** and an **authorised institution** and its auditors, normally following the institution's annual audit. The discussion typically includes any matter arising out of the audit, such as identified weaknesses in internal controls, adequacy of provisions, and compliance with prudential standards and the various requirements of the **Banking Ordinance**.

US DOLLAR CLEARING SYSTEM (美元結算系統)

Based on the experience and success of the Hong Kong dollar **Real Time Gross Settlement (RTGS)** system launched in December 1996, the **HKMA** introduced the US Dollar Clearing System in August 2000. The new system allows local financial institutions to settle US dollar transactions real time in the Asian time zone against the delivery of Hong Kong dollars, instead of 12 hours later in the New York time zone. With this system, foreign exchange settlement risk caused by the time gap between the settlement of Hong Kong dollars and US dollars can be reduced or even eliminated.

US FED FUNDS TARGET RATE (美國聯邦基金目標利率)

In the US, depository institutions can trade their reserves held by the Federal Reserve among themselves in the Fed Funds Market. The Fed Funds Rate is the cost for the overnight borrowing of these reserves. The Fed Funds Target Rate is the Federal Reserve's desired target rate for the Fed Funds Rate. The Federal Reserve conducts money market operations to influence the Fed Funds Rate if it considers the rate to be deviating too much from the target rate. In Hong Kong, the **Base Rate**, which is a reference rate for **banks** to obtain day-end liquidity under the **Discount Window**, is determined with the floor set at the US Fed Funds Target Rate plus a premium.

WORLD BANK GROUP (世界銀行集團)

Founded in 1944, the World Bank Group consists of five closely associated institutions: the International Bank for Reconstruction and Development (IBRD); International Development Association (IDA), International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); and International Centre for Settlement of Investment Disputes (ICSID). The World Bank is the world's largest source of development assistance to help developing countries on to a path of stable, sustainable, and equitable growth. Though not a member, Hong Kong has participated in the activities or discussions of the World Bank as part of the UK Delegation prior to 1 July 1997 and as part of the People's Republic of China Delegation thereafter. The **HKMA** co-ordinates matters relating to the participation of Hong Kong in the World Bank. In September 2000, the IFC and the IBRD established in Hong Kong a joint regional office for managing the IFC's operations and IBRD's private sector development work in East Asia and the Pacific region.

PUBLICATIONS IN ENGLISH BY THE HONG KONG MONETARY AUTHORITY

- *Core Principles for Effective Banking Supervision - An Assessment of the Position in Hong Kong*, 1997
- *Derivatives in Plain Words*, 1997
- *Financial Integration in Asia and the Role of Hong Kong*, 1997
- *Global Payment Systems*, 1996
- *Guide to Applicants* (for authorisation under the Banking Ordinance), 1995
- *Guideline on Financial Disclosure by Locally Incorporated Authorised Institutions*, 2000
- *Hong Kong Monetary Authority Annual Reports*, 1993-
- *HKMA Background Brief No. 1: Hong Kong's Linked Exchange Rate System*, 2000
- *Money and Banking in Hong Kong* Vol. 2, 1997
- *Money in Hong Kong: A Brief Introduction*, 2000
- *Monthly Statistical Bulletin*, September 1994 -
- *Prevention of Money Laundering*, 1997
- *Prudential Supervision in Hong Kong*, 1997
- *Quarterly Bulletin*, November 1994 -
- *Review of the Currency Board Arrangements in Hong Kong*, 1998

More detailed information, including recent statistics, on many of the topics discussed in this *Guide* may be found on the HKMA's website (www.hkma.gov.hk).