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FOREWORD TO THE THIRD EDITION

Over the years, Hong Kong's monetary and banking system has accumulated a variety of technical terms that are essential to explain 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.

The HKMA's *Guide to Hong Kong Monetary and Banking Terms* is an attempt to go some way towards bringing these terms together in one place. 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 third edition of the *Guide*, which was first published in May 1999. It is a revised and expanded edition, with around 60 new terms relating to recent developments in Hong Kong's monetary and banking sectors. The *Guide* now contains more than 200 definitions, nearly doubles the number of the first edition of 1999. The *Guide* is also available on the HKMA's website www.hkma.gov.hk.

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

Joseph Yam

Chief Executive

Hong Kong Monetary Authority

November 2006

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.

Accounting Arrangements (《會計安排》)

An agreement reached in July 1988 between the Financial Secretary, as the Controller of the **Exchange Fund**, and the Hongkong and Shanghai Banking Corporation Limited (HSBC), as the Management Bank of the Clearing House of the **Hong Kong Association of Banks**. The agreement required HSBC to open an account with the Exchange Fund. The balance in that account could only be altered by the **HKMA**, (or its predecessor, the Office of the Exchange Fund). The Accounting Arrangements required 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 HSBC punitive interest on the excess amount, which represented the sum that HSBC had over-lent to the rest of the banking system. If the NCB was negative, a punitive 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** 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**, and is a part of the **Monetary Base**. 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.

See also **Currency Board System** (貨幣發行局制度) and **Linked Exchange Rate system** (聯繫匯率制度).

arbitrage (套戥)

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 Bond Fund (ABF) (亞洲債券基金)

A fund initiated by **the Executives' Meeting of East Asia-Pacific Central Banks** (EMEAP) in 2002, with the aim of broadening and deepening regional and domestic bond markets in Asia. The ABF consists of two phases. In June 2003, EMEAP launched the first phase (ABF1), which invests in a basket of US dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers in eight EMEAP economies (China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand). Building on the success of ABF1, EMEAP has worked to extend the ABF concept to bonds denominated in local currencies. It announced the launch of the second phase of ABF (ABF2) in December 2004.

ABF2 comprises the ABF Pan Asia Bond Index Fund (PAIF) and eight Single-Market Funds. The PAIF is a single bond fund investing in sovereign and quasi-sovereign local currency-denominated bonds issued in eight EMEAP markets. The eight Single-Market Funds will each invest in sovereign and quasi-sovereign local currency-denominated bonds issued in the respective EMEAP markets. The Single-Market Fund of Hong Kong, the ABF Hong Kong Bond Index Fund, is the first ever bond **exchange-traded fund** in Asia. Both the ABF Hong Kong Bond Index Fund and the PAIF are listed on the Stock Exchange of Hong Kong.

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 65 members – 47 from within the region and 18 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.

A

asset quality (資產質素)

A description of the degree of financial strength and risk in a **bank's** assets, typically loans, investments, placements, and off-balance sheet items. Asset quality is normally measured by the level of a bank's classified assets, as well as overdue and rescheduled assets. The higher the level of classified assets and overdue and rescheduled assets, the lower the asset quality of a bank.

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

authorized institutions (認可機構)

An institution authorized 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** and **deposit-taking companies**. Authorized 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.

See also **Linked Exchange Rate system** (聯繫匯率制度).

B

B

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.

balance of payments (BoP) (國際收支平衡表)

A statistical statement that summarises, for a specific period, the economic transactions of an economy with the rest of world. A complete BoP account comprises the current account and the capital and financial account. In Hong Kong, while the quarterly BoP account is compiled from the reference period of the first quarter of 1999, the annual BoP account dates back to the reference period of 1998.

bank (銀行)

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

See also **deposit-taking company** (接受存款公司), **licensed bank** (持牌銀行), **restricted licence bank** (有限制牌照銀行) and **Three-tier Banking System** (三級銀行發牌制度).

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 Markets Committee, 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 the Pacific in Hong Kong. Between September 1999 and March 2006, the HKMA chaired the Central Bank Governance Steering Group. The HKMA now participates in BIS Annual Meetings, and in some of its committee and working group meetings.

Bank for International Settlements Asian Consultative Council (國際結算銀行亞洲諮詢委員會)

A forum established in 2001 to provide a vehicle for communication between the Asian and Pacific members of the **Bank for International Settlements** (BIS) and its Board and management on matters of interest and concern to the Asian central bank community. The forum comprises the Governors of the BIS member central banks in the Asia-Pacific region. The **HKMA** is a member; it chaired the forum from June 2003 to June 2005.

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 BAC 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.

See also **Deposit-Taking Companies Advisory Committee** (接受存款公司諮詢委員會).

banking book (銀行帳冊)

This refers to the on-balance sheet assets and off-balance sheet exposures held by the **authorized institutions** other than assets and exposures categorised under the **trading book**.

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.

B

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 authorization**, 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 authorization and supervision of **authorized 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 also provides for the approval and supervision of **money brokers**. 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)

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 removal of the “**one-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**. All the policy initiatives contained in the reform programme have been completed.

Banking Supervision Review Committee (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 major authorization matters under the **Banking Ordinance**. The principal objectives of the Committee are to ensure that decisions on authorization matters are taken in a fair and reasonable manner and to strengthen internal checks and balances.

banknote (銀行紙幣)

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

Basel II (《資本協定二》)

A new framework published by the **Basel Committee on Banking Supervision** in June 2004 for regulating the capital adequacy of **banks**. Replacing the current **Capital Accord** (also known as Basel I), Basel II offers implementing jurisdictions a more comprehensive and risk-sensitive framework that aligns regulatory capital requirements of banks more closely with the inherent risks they face. It consists of three pillars:

- minimum capital requirements
- supervisory review process
- market discipline.

See also **basic approach** (基本計算法), **internal ratings-based approach** (內部評級基準計算法) and **standardized (credit risk) approach** (標準(信用風險)計算法).

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 Basel Committee comprises representatives of central banks and supervisory authorities from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the **Bank for International Settlements** in Basel, where its permanent Secretariat is located.

Base Rate (基本利率)

The interest rate forming the foundation upon which the **Discount Rates** for **repurchase-agreement** 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.

basic approach (基本計算法)

One of the approaches set out under **Basel II** that **authorized institutions** incorporated in Hong Kong may choose for the calculation of minimum capital requirements for their **credit risk**. This approach is essentially a modification of the existing framework (Basel I) and is mainly intended for use, with the prior approval of the **HKMA**, by authorized institutions with small, simple and straightforward operations, and as an interim approach for authorized institutions planning to use the **internal ratings-based approach** by 2009.

See also **standardized (credit risk) approach** (標準(信用風險)計算法).

bilateral netting (雙邊淨額結算)

A legally enforceable arrangement between two parties under which, in the event of a party's default, the amount the non-defaulting party is to receive from (or pay to) the defaulting party is a net sum determined by netting the amounts receivable from and the amounts payable to the defaulting party under all transactions covered by the arrangement.



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 **authorized institutions** in Hong Kong.

Capital Accord (《資本協定》)

An accord reached by the **Basel Committee on Banking Supervision** in 1988 (now commonly known as Basel I), which has been applied to Hong Kong since 1989. The Accord sets out the framework for measuring the capital adequacy of **banks**, by requiring them to hold a minimum level of capital for their exposures to **credit risk**, expressed as a minimum ratio between a bank’s capital base and its risk weighted assets. This ratio is known as the **capital adequacy ratio**. The Accord promotes soundness and stability in the international banking system and aims at reducing 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.

capital adequacy ratio (CAR) (資本充足比率)

Under the current **Capital Accord**, (Basel I), CAR is a ratio between a **bank’s** capital base and its risk weighted assets. For implementing Basel I in Hong Kong, the Third Schedule to the **Banking Ordinance** sets out the method and components used in the calculation of CAR. Locally incorporated **authorized institutions** are required to adhere to the minimum 8% CAR, but the **HKMA** may increase the ratio to not more than 16%. Each locally incorporated authorized institution is assigned a minimum ratio on an unconsolidated (solo) basis or on both a consolidated and unconsolidated basis within the range specified by the Ordinance.

Adjusted CAR: The **market risk** capital adequacy regime requires locally incorporated authorized 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.

Under **Basel II**, the calculation of CAR will be expanded to cover **operational risk** in addition to credit and market risks and the manner in which the CAR of locally incorporated authorized institutions is calculated will be set out in the Capital Rules made by the **Monetary Authority** under the Banking Ordinance.

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, settlement and custodian facilities for **Exchange Fund Bills and Notes**, bonds issued by the Government of the Hong Kong Special Administrative Region, and debt securities issued by both public and private sector entities.

certificate of finality (終局性證明書)

A certificate issued to **designated systems** meeting certain criteria specified under the **Clearing and Settlement Systems Ordinance**. The certificate provides statutory backing to the finality of settlement for transactions made through designated systems by protecting the settlement finality from insolvency laws or any other laws.

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.

charge-off ratio (撇帳比率)

The ratio of the total amount of loans written off during a period to total outstanding amount of loans at the end of that period. This ratio measures the gross credit loss of a loan portfolio over a specified period of time. Charge-off policies vary from institution to institution. For credit card lending, normally, an account will be written off when the receivable has been overdue for more than 180 days or when the ultimate repayment of the receivable is unlikely (e.g. the cardholder is bankrupt or cannot be located). To better assess the **asset quality** of the credit card lending portfolio, the credit card charge-off ratio should be read in conjunction with the **delinquency ratio**. The charge-off ratio is annualised, whereas the delinquency ratio is measured by using the period-end position.

CHATS Optimiser (即時支付優化器)

The CHATS Optimiser is a system mechanism that settles paper cheques and large-value **Clearing House Automated Transfer System** (CHATS) payments simultaneously and in an offsetting manner. Paper cheques are settled daily in a bulk run at a specific time by multilateral netting. When the amounts required to settle paper cheque payments are

substantial, **banks**, having known their net cheque settlement positions, may make use of the CHATS Optimiser to make offsetting CHATS payments to their counterparties during the bulk settlement run. This helps the banks to manage their liquidity positions more efficiently and relieves them from the need to sit on substantial amounts of money for meeting their payment obligations in the bulk settlement run.

classified loans (特定分類貸款)

Loans that are classified as “substandard”, “doubtful” or “loss” under the **HKMA’s Loan Classification System**.

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 and Settlement Systems Appeals Tribunal (結算及交收系統上訴審裁處)

A tribunal established under the **Clearing and Settlement Systems Ordinance** to hear appeals from persons who are aggrieved by a decision of the **Monetary Authority** on the designation of a clearing and settlement system, the revocation of a designation, the issuance of a **certificate of finality** and the suspension or revocation of a certificate of finality. The tribunal is chaired by a judge and consists of a panel of independent members appointed by the Chief Executive of the Hong Kong Special Administrative Region.

Clearing and Settlement Systems Ordinance (《結算及交收系統條例》)

The statute providing the legal framework for the designation and **oversight** of clearing and settlement systems. The Ordinance also provides statutory backing to the finality of settlement for transactions made through those designated clearing and settlement systems (known as “**designated systems**”) for which a **certificate of finality** is issued.

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 in a **Real Time Gross Settlement** mode between **banks** in Hong Kong and is designed for large-value interbank payments. Banks using CHATS are connected to the clearing house computer operated by **Hong Kong Interbank Clearing Limited**.

Closer Economic Partnership Arrangement (CEPA)

(《更緊密經貿關係的安排》)

A free trade agreement entered into between the Government of the Hong Kong Special Administrative Region and the Central People's Government of the People's Republic of China on 29 June 2003 giving preferential access to the Mainland market for Hong Kong companies. CEPA aims at strengthening trade and investment co-operation between the Mainland and Hong Kong through progressively reducing tariff and non-tariff barriers on trade in goods and services, and facilitating trade and investment activities. CEPA is designed to offer new business opportunities on the Mainland for Hong Kong enterprises and professionals and increase Hong Kong's attractiveness to overseas investors.

CMU Bond Price Bulletin (CMU債券報價網站)

A website <https://www.cmu.org.hk> developed by the **Central Moneymarkets Unit** (CMU) of the **HKMA** to increase product and pricing transparency in the bond market. It allows **banks** and financial institutions to quote indicative bid and offer prices for bonds and to provide related bond information, making it easier for retail investors to participate in the bond market.

Code of Banking Practice (《銀行營運守則》)

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

See also **Legal Tender Notes Issue Ordinance** (《法定貨幣紙幣發行條例》).

commercial credit reference agency (商業信貸資料服務機構)

See **credit reference agency** (信貸資料服務機構).

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 four standing committees under the **Bank for International Settlements**. The Committee has three major tasks: systematic short-term monitoring of global financial system conditions; long-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 **authorized 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 authorized institution itself, and, if possible, to initiate preventive or remedial action.

Continuous Linked Settlement (CLS) System (Continuous Linked Settlement系統)

A global clearing and settlement system for cross-border foreign exchange transactions. The System is operated by CLS Bank International which is owned by over 70 global banking and financial institutions. It enables foreign exchange transactions involving the CLS eligible currencies to be settled through the CLS System on a **payment-versus-payment** basis, thus eliminating the settlement risk in these transactions. The Hong Kong dollar is an eligible currency of the CLS System.

Convertibility Undertaking (兌換保證)

An undertaking by a central bank or Currency Board to convert domestic currency into foreign currency and vice versa at a fixed exchange rate. In Hong Kong, the **HKMA** operates Convertibility Undertakings on both the strong side and the weak side of the Linked Rate of 7.80. Under the strong-side Convertibility Undertaking, the HKMA undertakes to buy US dollars from **licensed banks** at 7.75. Under the weak-side Convertibility Undertaking, the HKMA undertakes to sell US dollars at 7.85. Within the Convertibility Zone between 7.75 and 7.85, the HKMA may choose to conduct market operations consistent with Currency Board principles with the aim of promoting the smooth functioning of the money and foreign exchange markets.

The four broad principles governing these operations are

- (1) All operations within the Convertibility Zone should be carried out in strict accordance with Currency Board rules: that is, both the stock and changes in the **Monetary Base** should be fully backed by foreign exchange.

- (2) The primary objective of any operations should be to preserve exchange rate stability implied by the **Linked Exchange Rate system** and to maintain confidence in the system.
- (3) Operations might be undertaken to support such interest rate adjustments as would maintain exchange rate stability under the Linked Exchange Rate system, and would avoid destabilising behaviour in interest rates.
- (4) Operations might also be undertaken in order to remove market anomalies.

See also **Currency Board System** (貨幣發行局制度) .

C

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** (Basel Committee). 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／機構管治)

Corporate governance refers to the processes and the related organisational structures, by which organisations are directed, controlled and held to account. It involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. In the banking industry, corporate governance signifies 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.

The **HKMA** has issued a number of guidelines on corporate governance applicable to all **authorized institutions** in Hong Kong since 2000. These guidelines are reviewed by the HKMA on a regular basis to take into account international developments and to keep in pace with international best practice.

credit reference agency (信貸資料服務機構)

An entity that engages 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 credit reference agencies that handle consumer and/or commercial credit information in Hong Kong. The establishment of a commercial credit reference agency (CCRA) is one of the policy initiatives

contained in the **Banking Sector Reform Programme**. The initiative aims to address the need for **authorized institutions** to have better information about their corporate customers, particularly in relation to small and medium sized enterprises. The CCRA in Hong Kong commenced operation in November 2004.

credit risk (信用風險／信貸風險)

The risk of a borrower or counterparty failing to meet its obligations.

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 currency 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 Sub-Committee (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**.

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 currency reserves** in a specified foreign currency at a fixed exchange rate. In operational terms, the Monetary Rule often takes the form of an undertaking by the Currency Board to convert domestic currency into foreign currency reserves at the fixed exchange rate.

See also **Automatic/Autopilot Adjustment Mechanism** (自動調節機制), **Aggregate Balance** (總結餘), **Convertibility Undertaking** (兌換保證) and **Linked Exchange Rate system** (聯繫匯率制度).

D

delinquency ratio (拖欠比率)

The ratio of the total amount of loans overdue for more than three months to total outstanding amount of loans. This ratio provides an indication of the **asset quality** of the loan portfolio.

D

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 (PvP)** (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. Examples of such schemes include the Federal Deposit Insurance Corporation of the United States and the Deposit Protection Scheme of Hong Kong.

See also **deposit preferential payment/priority payment scheme** (優先償付計劃) and **Deposit Protection Scheme Ordinance** (《存款保障計劃條例》).

deposit preferential payment/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) and **Deposit Protection Scheme Ordinance** (《存款保障計劃條例》).

deposit protection scheme (存款保障計劃)

A general term used to describe a formal 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), **deposit preferential payment/priority payment scheme** (優先償付計劃) and **Deposit Protection Scheme Ordinance** (《存款保障計劃條例》).

Deposit Protection Scheme Ordinance (《存款保障計劃條例》)

The Ordinance, enacted on 5 May 2004, providing for the establishment of a **deposit protection scheme** in Hong Kong. In accordance with the Ordinance, a deposit protection scheme with a coverage limit of HK\$100,000 per depositor per **bank** will be established in Hong Kong. The scheme, which started operation on 25 September 2006, is managed by the **Hong Kong Deposit Protection Board**. All **licensed banks** in Hong Kong are members of the Scheme unless otherwise exempted by the Board.

See also **deposit insurance scheme** (存款保險計劃) and **deposit preferential payment/priority payment scheme** (優先償付計劃).

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.

See also **Banking Advisory Committee** (銀行業務諮詢委員會).

deposit-taking company (接受存款公司)

One of the three types of **authorized institutions** 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 **licensed bank** (持牌銀行), **restricted licence bank** (有限制牌照銀行) and **Three-tier Banking System** (三級銀行發牌制度).

derivatives (衍生工具)

A financial contract whose value is derived from the value of single or multiple underlying assets, indices or events. Common underlying assets include foreign currencies, equities, credit, debt securities, and commodities. Derivatives can be used for hedging, enhancing investment yield, or taking arbitrage opportunities, and cover a wide range of financial contracts including forwards, futures, options, swaps and their various combinations and variations.

designated system (指定系統)

A clearing and settlement system designated under the **Clearing and Settlement Systems Ordinance**. A clearing and settlement system whose proper functioning is material to the monetary or financial stability of Hong Kong, or to the functioning of Hong Kong as an international financial centre may become a designated system under the Ordinance. Designated systems are subject to **oversight** by the **HKMA**.

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.

See also **Discount Rate** (貼現率).

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.

doubtful loans (呆滯貸款)

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

DTC Association (DTCA) (存款公司公會)

Established in 1981 under the Companies Ordinance, the DTCA 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.

See also **Hong Kong Association of Banks** (香港銀行公會).

E

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 Government of the Hong Kong Special Administrative Region that 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 those of 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 based on consumer prices, export prices and unit labour costs.

electronic banking/e-banking (電子銀行)

Banking services delivered through a public or private network, including the Internet and wireless communication networks. Customers may gain access to e-banking services using an electronic device, such as a personal computer (PC), personal digital assistant (PDA), automated teller machine (ATM), kiosk, or touch-tone telephone.

See also **Internet banking** (網上銀行).

electronic clearing (ECG) (電子結算)

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

Electronic Delivery Programme (電子交付計劃)

A programme for delivering circulars and guidelines to **authorized 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 "on-line banking").

Euro Clearing System (歐元結算系統)

A clearing system introduced in Hong Kong in April 2003 to improve settlement efficiency and reduce settlement risk of euro transactions in Asian time. Like the Hong Kong dollar and US Dollar Clearing Systems, the Euro Clearing System offers **Real Time Gross Settlement** for euro payments and **payment-versus-payment** settlement for EUR/USD and EUR/HKD foreign exchange transactions. The system is also linked to the **Central Moneymarkets Unit** to provide **delivery-versus-payment** settlement of euro-denominated debt securities and **repurchase-agreement** facilities.

See also **US Dollar Clearing System** (美元結算系統) and **Renminbi Settlement System** (人民幣交收系統).

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.

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 (EFAC). 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.

EFAC is assisted in its work by five sub-committees, which monitor specific areas of the **HKMA's** work and report and make recommendations to the Financial Secretary through EFAC. The Governance Sub-Committee monitors the performance of the HKMA and makes recommendations on remuneration and human resources policies, and on budgetary, administrative and governance issues. The other four Sub-Committees are the Audit Sub-Committee, **Currency Board Sub-Committee**, Investment Sub-Committee and Financial Infrastructure Sub-Committee.

E

Exchange Fund Bills and Notes (外匯基金票據及債券)

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 June 2006, the total amount outstanding was around HK\$129.3 billion, with a maturity profile extending from three months to ten years. These instruments are fully backed by **foreign currency 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 currency 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 Bills and Notes fixings (外匯基金票據及債券定價)

Fixing rates on yields/prices of individual benchmark **Exchange Fund Bills and Notes** (EFBN) have been set by the **HKMA** since 16 December 2002. The benchmarks for fixings are Exchange Fund Bills (EFB) of 1-week, 1-month, 3-month, 6-month, 9-month and 12-month tenors, which are set on a mid-yield basis, and Exchange Fund Notes (EFN) of 2-year, 3-year, 4-year, 5-year, 7-year and 10-year tenors, which are set on a mid-price basis. The contributors to the EFB and EFN fixings are selected by the HKMA from the pool of market makers that rank among the top 12 in terms of EFB and EFN turnover. The fixing for each of the benchmarks is calculated by taking the arithmetic mean of the middle eight quotes for EFBN at 11:00 am on each trading day from Monday to Friday, after excluding the two highest and the two lowest quotes. The fixings are published by major news wire agencies at 11:30 a.m. A set of closing reference rates for the benchmarks at 4:00 p.m. is also calculated and broadcast at 4:30 p.m., following the same procedures and methodology used for the official fixings.

Exchange Fund Investment Limited (EFIL) (外匯基金投資有限公司)

EFIL is a private limited company established in October 1998 under the Companies Ordinance by the Government of the Hong Kong Special Administrative Region to i) manage the Hong Kong equity portfolio of the **Exchange Fund** (consisting of the Hang Seng Index constituent stocks acquired in the **HKMA's** August 1998 market operation and the portfolio transferred from the **Land Fund** to the Exchange Fund in November 1998), and ii) to dispose of the Exchange Fund's Hong Kong equity portfolio (other than a long-term investment portfolio) with minimum disruption to the market. A total of HK\$140.4 billion worth of Hong Kong stocks was disposed of through the **initial public offering** of the **Tracker Fund of Hong Kong** (TraHK) and the subsequent quarterly Tap Facility of TraHK. The disposal programme was completed on 15 October 2002. The HKMA took over responsibility for the management of the Exchange Fund's Hong Kong equity portfolio from EFIL in January 2003.

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 "shall be used primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly the exchange value of the currency of Hong Kong and for other purposes incidental thereto." The Financial Secretary may, having regard to that primary purpose and with a view to maintaining Hong Kong as an international financial centre, use the Exchange Fund for maintaining the stability and integrity of the monetary and financial systems of Hong Kong. It also empowers the Financial Secretary to appoint the **Monetary Authority** to manage the Exchange Fund, among other duties.

exchange-traded fund (ETF) (交易所買賣基金)

A listed bond or equity fund that seeks to achieve a total return corresponding to that of its benchmark index by investing in all or a representative sample of the constituent securities of the benchmark index (benchmark securities).

One of the unique features of an ETF is the provision of an in-kind creation and redemption mechanism, which helps ensure that the trading price of fund units will be close to the net asset value per unit. Under this mechanism, units of the ETF can be created by surrendering a specified basket of benchmark securities to the fund. In the case of redemption, the fund will provide a basket of benchmark securities in exchange for the units being redeemed. In most cases, there is a minimum size for in-kind transactions.

See also **Tracker Fund of Hong Kong** (盈富基金).

executive directors (執行董事)

In relation to an **authorized institution** incorporated in Hong Kong, directors who have definable management responsibilities in addition to their functions as directors.

See also **independent directors** (獨立董事) and **non-executive directors** (非執行董事).

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 participates in all three working groups as members.

F

Financial Action Task Force on Money Laundering (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 national and international policies to combat **money laundering** and **terrorist financing**. The FATF has published 40 recommendations for combating money laundering and nine special recommendations for combating terrorist financing. At the end of September 2005, the FATF comprised representatives from 31 jurisdictions 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 recommendations in combating money laundering and terrorist financing.

financial disclosure (披露財務資料)

Authorized 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 authorized institutions. Detailed disclosure requirements are specified under the **Guideline on Financial Disclosure by Locally Incorporated Authorized Institutions**.

Overseas incorporated authorized 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 specified under the **Guideline on Financial Disclosure by Overseas Incorporated Authorized Institutions**. The disclosure by a foreign authorized 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 Government of the Hong Kong Special Administrative Region 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 or an executive officer (defined as an individual who is responsible for supervising regulated securities and futures activities) of an **authorized 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.

The HKMA must also be satisfied that an authorized institution has adequate systems of control to ensure that each person who is a "manager" of the institution is a fit and proper person. A "manager" is an individual who is principally responsible for the conduct of any major affairs or business of the institution.

flow of funds statements (資金流量表)

Records of transactions in financial assets and liabilities among various sectors of an economy or among these sectors and non-residents during a period of time. They are useful for analysing the interrelationship between the supply of credit and economic activity, and the effects of changes in interest rates on borrowing and holdings of financial assets.

foreign currency 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 currency reserves are also used for making payments in foreign currencies without the need to sell the domestic currency in the market.

foreign currency swap deposits (外幣掉期存款)

Deposits which involve customers buying foreign currencies in the spot market and placing them as deposits with **authorized institutions**, while at the same time entering into a contract to sell these foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, these deposits should be regarded as Hong Kong dollar time deposits. **Money supply** figures for the Hong Kong dollar are adjusted to include foreign currency swap deposits, while those for foreign currency are adjusted to exclude these deposits.

foreign exchange settlement risk (外匯結算風險)

The possibility of a loss in a foreign exchange transaction, in which one party cannot perform its payment obligations to one or more counterparties. Settlement risk has historically been a concern in the foreign exchange market because of the cross-border and cross-time zone nature of foreign exchange transactions. Each currency has to be delivered in its home country. Owing to time zone differences, several hours can pass between a payment being made in one currency and the offsetting payment being made in another currency. Foreign exchange settlement risk is also called the Herstatt risk.

G

government-issued currency in circulation (政府發行的流通貨幣)

The **HKMA** issues coins and \$10 currency notes on behalf of the Government. An agent bank is responsible for the storage and distribution of coins and currency notes to the public. The transactions between the HKMA and the agent bank are settled in US dollars at the rate of HK\$7.80 to one US dollar. Coins and currency notes in circulation are therefore fully backed by **foreign currency reserves** held in the **Exchange Fund**. Changes in the circulation are automatically matched by corresponding changes in the foreign currency reserves.

See also **banknote** (銀行紙幣).

Guideline on Financial Disclosure by Locally Incorporated Authorized 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 **authorized 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 authorized institutions incorporated in Hong Kong, except the smaller **restricted licence banks** and **deposit-taking companies**, to comply with the Guideline.

See also **Guideline on Financial Disclosure by Overseas Incorporated Authorized Institutions** (《海外註冊認可機構披露財務資料指引》).

Guideline on Financial Disclosure by Overseas Incorporated Authorized Institutions (《海外註冊認可機構披露財務資料指引》)

A guideline issued by the **HKMA** setting out the minimum disclosure standards which the HKMA expects overseas-incorporated **authorized institutions** to adopt in respect of information to be disclosed on a half-yearly basis in their Key Financial Information Disclosure Statements. The Guideline is reviewed by the HKMA on a regular basis to take into account developments in international accounting standards and to keep pace with international best practice. The **Monetary Authority** expects all larger authorized institutions incorporated outside Hong Kong to comply with the Guideline. Those below the exemption thresholds are encouraged to adopt the disclosure standards in the Guideline.

See also **Guideline on Financial Disclosure by Locally Incorporated Authorized Institutions** (《本地註冊認可機構披露財務資料指引》).

Guide to Authorization (《認可指引》)

A publication by the **HKMA** providing guidance to institutions seeking authorization 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.

H

home supervision (註冊地監管)

The monitoring of **authorized institutions** by the banking supervisory authority in the place where the authorized institution is incorporated. The **HKMA** is the home supervisor to authorized institutions incorporated in Hong Kong and exercises **consolidated supervision** over these authorized institutions, their subsidiaries and 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 HKAB and to observe the rules made by the Association under the HKAB Ordinance. The main objects of 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 **DTC Association** (存款公司公會) and **Hong Kong Interbank Clearing Limited** (香港銀行同業結算有限公司).

Hong Kong Association of Banks Hong Kong Dollar Interest Settlement Rates (香港銀行公會港元利息結算率)

Daily Hong Kong dollar Interest Settlement Rates are fixed by the **Hong Kong Association of Banks** (HKAB) by reference to market rates for Hong Kong dollar deposits in the Hong Kong interbank market. These fixings are made at 11.00 a.m. each business day (excluding Saturdays) on the basis of quotations provided by 20 **banks** designated by HKAB as reference banks. Daily fixings are made available for each monthly Hong Kong dollar deposit maturity between 1 and 12 months. The Interest Settlement Rate is calculated by averaging the middle 14 of the quotations from the 20 reference banks. Individual reference banks are selected by HKAB on the recommendation of the **Treasury Market Association** on the basis of reputation, scale of activity in the Hong Kong dollar market and credit standing.

Hong Kong Deposit Protection Board (香港存款保障委員會)

A statutory body created under the **Deposit Protection Scheme Ordinance** and charged with the responsibility for establishing and maintaining the **Deposit Protection Scheme** in Hong Kong. The role of the Board is confined to that of a paybox. Its functions are limited to assessment of contributions payable by member **banks**, management of the fund of the Deposit Protection Scheme and payment of compensation to depositors if a bank failure occurs.

Hong Kong Financial Reporting Standards (香港財務報告準則)

Hong Kong Financial Reporting Standards (HKFRS) include the following pronouncements issued by the Hong Kong Institute of Certified Public Accountants

- all financial reporting standards and accounting standards
- Interpretations.

Since 2005 HKFRS have been modelled on International Financial Reporting Standards (IFRS), which include the following pronouncements issued by the International Accounting Standards Board (the successor of the International Accounting Standards Committee).

- International Accounting Standards
- Interpretations.

HKFRS and IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general-purpose financial statements. They may also set out such requirements for transactions and events that arise in specific industries.

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**. 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 the computer system of the **Central Moneymarkets Unit**.

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 or 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 **authorized 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.

H

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 HKMC 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 Special Administrative Region 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.

host supervisor (所在地監管當局)

A banking supervisory authority in the place where a branch of a foreign incorporated **authorized 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 directors (獨立董事)

In relation to an **authorized institution** (AI) incorporated in Hong Kong, **non-executive directors** who are independent of the AI's management and free from any business or other relationship that could materially affect their independent judgment. Some non-executive directors may represent the interests of the AI's shareholders or have some form of connection with the AI, which means that they cannot be considered as independent. Independent directors are appointed to the board of directors to provide effective checks and balances on the powers of **executive directors** and the management and to give objective advice on activities of the AI and decisions taken by the board of directors.

initial public offering (IPO) (首次公開招股)

The first-time sale of equity shares of a company through public subscription. An active response to an IPO will usually lead to a brief increase in demand for short-term liquidity.

interbank liquidity (銀行同業流動資金)

The availability of funding for borrowing (to meet short-term payment obligations) or lending (to temporarily dispose of surplus funds productively) in the interbank market. The size of the **Aggregate Balance** is often used as an indicator of the level of interbank liquidity.

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》).

internal ratings-based approach (內部評級基準計算法)

One of the approaches under **Basel II** for the calculation of minimum capital requirements for **credit risk**. Under this approach, **banks** will be able to rely on their own internal rating systems for assessments of credit risk in order to calculate the capital which they must hold, provided that they can satisfy their supervisors that their systems meet a set of minimum supervisory standards.

See also **basic approach** (基本計算法) and **standardized (credit risk) approach** (標準(信用風險)計算法).

International Monetary Fund (IMF) (國際貨幣基金組織)

Established in 1946, the IMF is an international organisation of 184 members 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 Special Data Dissemination Standard** 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 analyzing their impacts on Hong Kong.

International Monetary Fund Article IV Consultation (國際貨幣基金組織第四條款磋商)

Under Article IV of the Articles of Agreement of the **International Monetary Fund** (IMF), 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 about 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, that takes place in the fourth quarter each year. 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.

International Monetary Fund Special Data Dissemination Standard (SDDS) (國際貨幣基金組織的數據公布特殊標準)

The SDDS was established in 1996 to guide member economies of the International Monetary Fund 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 currency reserves** and foreign currency liquidity in the end of May 2000. At present, the **HKMA** releases every month Hong Kong's latest foreign currency reserve assets figures, analytical accounts of the **Exchange Fund**, 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.

See also **reserves management** (儲備管理).

Investment Portfolio (投資組合)

The portion of **Exchange Fund** assets apart from the **Backing Portfolio**. Most of the assets are invested in bond and equity markets of developed nations to preserve the long-term purchasing power of these assets.

See also **Backing Ratio** (支持比率) and **foreign currency reserves** (外匯儲備).

J

Joint Financial Intelligence Unit (JFIU) (聯合財富情報組)

The unit was set up in 1989 and jointly operated by the Hong Kong Police Force and the Hong Kong Customs & Excise Department. Its role is to receive and store reports about suspicious financial or **money laundering** activity. While the JFIU does not investigate suspicious transactions, it refers such reports to the appropriate enforcement departments for investigation. The JFIU also provides advice on tackling money laundering and offers practical guidance and assistance to the financial sector on the subject.

See also **Financial Action Task Force on Money Laundering** (打擊清洗黑錢財務行動特別組織).



Land Fund (土地基金)

The Hong Kong Special Administrative Region (HKSAR) Government Land Fund Trust was established on 13 August 1986. The Trust was set up to facilitate the management of the HKSAR'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 HKSAR on 1 July 1997, the assets of the Trust were vested in the HKSAR Government. The Chief Executive of the HKSAR appointed the Financial Secretary as the public officer to receive, hold and manage the Fund as part of the HKSAR 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 the 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 Bank of China (Hong Kong) Limited, Standard Chartered Bank (Hong Kong) Limited and The Hongkong and Shanghai Banking Corporation Limited and the HK\$10 currency notes issued by the Financial Secretary pursuant thereto since 2002 are legal tender notes within Hong Kong.

See also **Coinage Ordinance** (《硬幣條例》).

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 **authorized institutions** 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 **deposit-taking company** (接受存款公司), **restricted licence bank** (有限牌照銀行) and **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.

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 **authorized 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 **authorized 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 authorized 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 authorized institution expects to sustain a loss of principal and/or interest, taking into account the **net realisable 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 (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. A local representative office is required to confine its business to representational and liaison activities and must not engage in **banking business**. Since April 2002, the **HKMA's** general policy that an overseas bank should maintain a local representative office for a minimum of one to two years before it can be considered for authorization has been removed.

loss loans (虧損貸款)

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

M

Market Makers for Exchange Fund Bills and Notes (外匯基金票據及債券市場莊家)

Financial institutions appointed by the **HKMA** to promote the liquidity of the **Exchange Fund Bills and Notes** in the secondary market (professional market). Market makers undertake to quote two-way prices on request during normal trading hours of Exchange Fund paper (between 9:00 a.m. to 12:00 noon and 2:00 p.m. to 4:00 p.m. Monday to Friday). The rights and obligations of market makers are stated in the Information Memoranda of Exchange Fund Bills Programme and Exchange Fund Notes Programme.

See also **Recognised Dealers for Exchange Fund Bills and Notes** (外匯基金票據及債券認可交易商).

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 **authorized institution**.

minimum criteria for authorization (認可的最低準則)

The minimum criteria that new entrants must satisfy in order to be, and continue to be, authorized 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**), **government-issued currency in circulation**, the balance of the **clearing accounts** of **banks** kept with the **HKMA** (the **Aggregate Balance**), and **Exchange Fund Bills and Notes**.

Monetary Rule (貨幣規則)

Under a **Currency Board System**, the Monetary Rule requires changes in **Monetary Base** (liabilities of the Currency Board) to be matched by corresponding changes in **foreign currency 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 **authorized 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.

M

money broker (貨幣經紀)

A person who provides dealing services to counterparties, one of which is an **authorized 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.

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 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)

Bonds backed by a pool of mortgage loans where the coupon payment and principal repayment rely on the cash flow, in the forms of scheduled instalment payment and unscheduled early principal repayment, of the underlying mortgage loans. The security may be provided with credit enhancement in the form of guarantee, over-collateralisation, senior-subordinate structure, letter of credit or other means to meet investor demand.

mortgage insurance (按揭保險)

An arrangement that protects lending **banks** against the risk of mortgage payment default by the borrower. Mortgage insurance in Hong Kong enables the banks to lend more than 70% of the value of the property without incurring additional **credit risk**, since the portion in excess of 70% **loan-to-value ratio** ("LTV ratio") is covered by mortgage insurance. In March 1999, The **Hong Kong Mortgage Corporation Limited** launched a Mortgage Insurance Programme to provide mortgage insurance to banks in Hong Kong up to a LTV ratio of 85%. The Programme was expanded in August 2000 to include loans with 90% LTV ratio, and in July 2004 to include loans with 95% LTV ratio.

N

negative equity (負資產)

A term applied to residential mortgage loans where the outstanding loan amount with an **authorized institution** is higher than the current market value of the mortgaged property. This definition does not take into account other loans which a borrower may have obtained from co-financiers such as property developers, the government or money lenders to finance the purchase.

negotiable debt instrument (可轉讓債務工具)

An unconditional written order to repay a debt, easily transferable from one person to another. Examples of these instruments are negotiable certificates of deposits, securities, bankers' acceptance, bills of exchange, promissory notes and bonds.

net realisable value (可變現淨值)

The current market value of a security less any realisation costs.

non-cooperative countries and territories (NCCTs) (不合作國家及地區)

In 2000 the **Financial Action Task Force on Money Laundering** (FATF) engaged in a process of identifying countries and territories having inadequate rules and practices that impede international co-operation in the fight against **money laundering**. These countries or territories are designated as NCCTs. The FATF promulgates in its revised 40 Recommendations that financial institutions should give special attention to business relationships and transactions with persons, including companies and financial institutions from countries or jurisdictions which do not or insufficiently apply its recommendations. Between June 2000 and September 2001 the FATF identified a total of 23 NCCTs, of which 20 had been removed from the NCCT list by June 2005 after making significant progress in anti-money laundering measures.

N

non-executive directors (非執行董事)

In relation to an **authorized institution** (AI) incorporated in Hong Kong, directors other than **executive directors**, that is, directors who are not employees of the AI and do not hold any other office in the AI in conjunction with their office as director. They are appointed to the board of directors to provide effective checks and balances on the powers of executive

directors and management and to give objective advice on activities of the AI and decisions taken by the board of directors.

See also **independent directors** (獨立董事).

note-issuing banks (發鈔銀行)

Banks that issue **banknotes** that are legal tender. The current note-issuing banks in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, and Bank of China (Hong Kong) Limited. 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**.

See also **Legal Tender Notes Issue Ordinance** (《法定貨幣紙幣發行條例》).



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 **authorized 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 authorized 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 **authorized institutions** irrespective of their place of incorporation. In the case of locally incorporated authorized 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 authorized 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.

operational risk (業務操作風險)

The risk of direct or indirect losses resulting from inadequacies or failings in the processes or systems, or of personnel, of an institution; or from external events.

overdue loans (逾期貸款)

Loans with a specified expiry date where the principal or interest remains unpaid after the expiry date.

oversight (監察)

A process undertaken by the **HKMA** to monitor compliance of **designated systems** with the requirements set out in the **Clearing and Settlement Systems Ordinance** and to promote the safety and efficiency of designated systems.



P

pass loans (合格貸款)

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

payment system (支付系統)

A set of instruments, banking procedures and 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 reforms to Hong Kong's payment system. The most important of these reforms was the launch in December 1996 of the **Real Time Gross Settlement** system for interbank payments. This system is widely acknowledged to be one of the most advanced and robust of its kind. A **US Dollar Clearing System** and a **Euro Clearing System** were launched in 2000 and 2003 respectively to facilitate the efficient settlement of US dollar and euro transactions in Hong Kong and the region. A **Renminbi Settlement System** was introduced in March 2006 to provide a clearing and settlement platform for the **renminbi banking business** in Hong Kong.

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 (DvP)** (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 **authorized institutions** in Hong Kong and the HKMA for information dissemination and communication. Through PWS, authorized 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.

Process Review Committee (程序覆檢委員會)

An independent committee whose members are appointed by the Chief Executive of the Hong Kong Special Administrative Region. The principal objectives of the Committee are to review and advise the **HKMA** on the adequacy of the HKMA's internal operational procedures

and guidelines for applying the standards set under the **Clearing and Settlement Systems Ordinance** to **designated systems** in which the HKMA has a legal or beneficial interest.

property lending (物業貸款)

For the purposes of the **HKMA's** banking supervision, property lending usually refers to the following types of loans reported in the Quarterly Return of Loans and Advances and Provisions:

- a) loans to finance property development, including those for building and construction;
- b) loans to finance investments in properties, including uncompleted properties; and
- c) loans to professional and private individuals for the purchase of residential properties for own occupation or investment purposes, other than the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme.

Individual **authorized institutions** may adopt a broader definition for their own internal purposes.

prudential meeting (審慎監管會議)

A meeting held by the **HKMA** with the senior management of an **authorized 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 authorized 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 **authorized 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 authorized 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.

R

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)

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).

Recognised Dealers for Exchange Fund Bills and Notes (外匯基金票據及債券認可交易商)

Financial institutions appointed by the **HKMA** to assist in the development of the **Exchange Fund Bills and Notes** (EFBN) market. Since the implementation of the **Real Time Gross Settlement** system, most **banks** have been granted Recognised Dealer status. They have the right to participate in tenders and can maintain securities accounts with the HKMA for holding EFBN on behalf of their customers. The rights and obligations of Recognised Dealers are stated in the Information Memoranda of Exchange Fund Bills Programme and Exchange Fund Notes Programme.

See also **Market Makers for Exchange Fund Bills and Notes** (外匯基金票據及債券市場莊家).

registered institution (註冊機構)

An **authorized institution** which is registered under the Securities and Futures Ordinance to conduct securities intermediary activities. The **HKMA** is the front-line supervisor of registered institutions.

register of authorized institutions (認可機構紀錄冊)

A register containing particulars of all **authorized institutions** and representative offices of overseas **banks**, which the **HKMA** maintains for public inspection under the provisions of the **Banking Ordinance**.

renminbi banking business (人民幣銀行業務)

Limited renminbi-denominated banking services offered by **licensed banks** in Hong Kong to Hong Kong identity card holders and, for certain types of services, to Designated Business Customers. To be eligible to conduct renminbi **banking business**, each licensed bank has to enter into an Agreement for Settlement of Renminbi Banking Business in Hong Kong with the Clearing Bank to become a Participating Bank. The Clearing Bank is appointed and authorized by the People's Bank of China (PBoC) to provide renminbi position squaring and clearing services to the Participating Banks. Renminbi banking business commenced in February 2004 with the initial scope of services covering currency exchanges between renminbi and the Hong Kong dollar, remittances, deposits and bank cards denominated in renminbi. The existing limitations on renminbi banking business are subject to progressive change in accordance with the evolution of the PBoC's policy. For example, with effect from December 2005 Participating Banks are allowed to offer renminbi current account services to Hong Kong identity card holders, who may now issue renminbi cheques to pay for consumer purchases in Guangdong Province.

Renminbi Settlement System (人民幣交收系統)

Launched on 6 March 2006, the Renminbi Settlement System was developed to cater for the settlement needs of the expanded **renminbi banking business**. The key functions of the Renminbi Settlement System include a clearing and settlement system for renminbi cheques drawn on banks in Hong Kong for consumer spending in Guangdong, an automatic system for remittance processing, renminbi bank card payments, renminbi position-squaring and real-time enquiry services for participants in the Renminbi Settlement System.

See also **US Dollar Clearing System** (美元結算系統) and **Euro Clearing System** (歐元結算系統).

repurchase agreement (repo) (回購協議)

An agreement between two parties whereby one party sells securities to another party in return for cash and agrees to repurchase equivalent securities at an agreed price and on an agreed future date. Repos may be seen as being akin to collateralised borrowing and lending. Legally, however, the transaction under a repo involves an outright sale of the securities that passes full ownership of the securities to the purchaser. This instrument 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.

rescheduled loans (經重組貸款)

Loans that have been restructured and re-negotiated between **authorized institutions** and borrowers because of deterioration in the financial position of the borrower or the inability of

the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or the repayment period, are non-commercial to the authorized institution.

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 (有限制牌照銀行)

One of the three types of **authorized 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 **deposit-taking company** (接受存款公司), **licensed bank** (持牌銀行) and **Three-tier Banking System** (三級銀行發牌制度).

retail banks (零售銀行)

All of the locally incorporated **banks** plus a number of the larger foreign banks whose operations are similar to those of the locally incorporated banks in that they operate a local branch network and are active in retail banking business.

revocation of authorization (撤銷認可)

The **Banking Ordinance** empowers the **Monetary Authority** to revoke the authorization of an **authorized institution** if the **minimum criteria for authorization** 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 authorizations 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 authorized institution concerned must cease to carry on the business that was the subject of its authorization 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 **authorized institutions** in Hong Kong. Under this approach, the HKMA assesses the risk profile of each institution and ascertains 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. This 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.

RTGS Liquidity Optimiser (流動資金優化器)

A liquidity saving device, launched on 23 January 2006, which increases liquidity efficiency through periodic multilateral offsetting of payment instructions queued in the **Real Time Gross Settlement** system at each 30-minute interval. Apart from scheduled runs, an RTGS Liquidity Optimiser run will also be triggered by the HKMA when needed, for example during times of large interbank payment flows, to clear outstanding payment queues.

Rules on Interest Rates and Deposit Charges/Interest Rates Rules (IRRs) (《利率及存款收費規則》／《利率規則》)

Certain types of Hong Kong dollar deposits offered by **banks** in Hong Kong were previously subject to IRRs issued by the **Hong Kong Association of Banks** (HKAB). All banks in Hong Kong, as members of HKAB, were required to observe these rules, which generally related to the maximum rate of interest a bank could offer on certain types of deposits. Progressive deregulation of IRRs has taken place in phases since 1994. Since July 2001, all IRRs have been removed and interest rates on all kinds of deposits are determined by individual banks.

Simultaneous Processing of DvP and Collateralisation (SPDC) (同步處理債券貨銀兩訖及抵押程序)

The SPDC is a system tool which allows **Exchange Fund Bills and Notes** (EFBNs) buyers to obtain liquidity from the **HKMA** using the incoming EFBNs as collateral. This encourages greater use of real-time delivery versus payment to settle EFBN transactions, thus increasing settlement efficiency and reducing settlement and concentration risks at the end-of-day settlement run.

special mention loans (需要關注貸款)

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

standardized (credit risk) approach (標準(信用風險)計算法)

One of the approaches set out under **Basel II** that **authorized institutions** incorporated in Hong Kong may choose for the calculation of minimum capital requirement for their **credit risk**. The main feature of this approach is that the risk weights of banking assets will depend on credit assessments provided by external credit assessment institutions recognised by a banking supervisor.

See also **basic approach** (基本計算法) and **internal ratings-based approach** (內部評級基準計算法).

stored value card (儲值卡)

An instrument which contains prepaid monetary value stored in a magnetic strip or an electronic device embedded in 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**.

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 **authorized 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 **authorized institutions**. The system, which replaces **Submission Through Electronic Media**, allows users to submit returns through electronic transmission. Participating authorized 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 unauthorized parties is therefore reduced. In addition, the STET system eliminates the physical delivery of hard-copy and diskettes of returns.

substandard loans (次級貸款)

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

Supervisory Policy Manual (《監管政策手冊》)

A manual setting out the **HKMA's** latest supervisory policies and practices, the minimum standards **authorized institutions** are expected to attain in order to satisfy the requirements of the **Banking Ordinance** and recommendations on best practices that authorized institutions should aim to achieve. The Supervisory Policy Manual is available on the HKMA website www.hkma.gov.hk.

suspension of authorization (暫停認可)

Under the **Banking Ordinance**, where the **HKMA's** powers to revoke an authorization become exercisable, the HKMA may, after consultation with the Financial Secretary, suspend the authorization 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 **authorized institution** must cease to carry on the business for which its authorization 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 authorized 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 authorization** (撤銷認可).

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terrorist financing (恐怖分子籌資活動)

The carrying out of transactions involving funds which are owned by terrorists, or which have been, or are intended to be, used to assist in the commission of terrorist acts. Terrorist financing differs from **money laundering**, where the focus is on the handling of criminal proceeds.

See also **Financial Action Task Force on Money Laundering** (打擊清洗黑錢財務行動特別組織).

Three-tier Banking System (三級銀行發牌制度)

Authorized institutions under the **Banking Ordinance** comprise **banks, restricted licence banks** and **deposit-taking companies**, 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 authorized 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** 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.

See also **exchange-traded fund** (交易所買賣基金).

trading book (自營買賣帳冊)

A book showing positions in financial instruments and commodities held either with trading intent or for the purpose of hedging other elements of the trading book. The financial instruments held in the trading book should be free of any restrictive covenants on their tradability or able to be hedged completely. In addition, these positions should be frequently and accurately valued, and the portfolio should be actively managed.

See also **banking book** (銀行帳冊).

transfer of authorization (認可的轉讓)

Under the **Banking Ordinance**, the authorization of an **authorized institution** may be transferred from that institution to another institution. A transfer of authorization may not take effect until the **HKMA** agrees that the transferee satisfies the **minimum criteria for authorization** and grants the transfer. 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 authorized, but remains responsible for any liability incurred prior to the transfer.

Treasury Markets Association (TMA) (財資市場公會)

The TMA was set up in November 2005 through the institutionalisation of the Treasury Markets Forum of Hong Kong, including a merger with ACI-The Financial Markets Association of Hong Kong. The TMA promotes co-operation among market participants with a view to raising the professionalism of practitioners and the overall competitiveness of the treasury markets in Hong Kong. Specifically, the TMA develops and promotes appropriate codes and standards for treasury markets; promotes market and product development; provides training and accreditation of relevant qualifications; and raises the profile of Hong Kong as the preferred hub for treasury market businesses in the region. The TMA consists of both individual and institutional members from the foreign exchange and money markets, debt, **derivatives** and other treasury markets.

tripartite meeting (三方聯席會議)

An annual meeting between the **HKMA** and an **authorized 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**.

two-factor authentication (雙重認證)

A security measure which uses a combination of two different factors for validating the identity and authority of an **e-banking** customer. Typically, the first factor is "something a customer knows" (e.g. user ID and password) and the second factor is "something a customer has" (e.g. one-time passwords generated by a security token, a hardware electronic key, the customer's private key stored in a smart card or other devices in the customer's possession).

Different **authorized institutions** may offer different types of two-factor authentication methods to customers. Three common types adopted by **banks** in Hong Kong are digital certificates, SMS-based one-time passwords and security token-based one-time passwords.

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US Dollar Clearing System (美元結算系統)

To facilitate the efficient settlement of US dollar transactions in Hong Kong and the region and to eliminate the settlement risks that may arise when the two currency legs of a foreign exchange transaction are spread across different time zones, the **HKMA** has introduced the US Dollar Clearing System in Hong Kong which has been in operation since December 2000. The US Dollar Clearing System is built on the same infrastructure as the Hong Kong dollar **Real Time Gross Settlement** system and offers a range of advanced and sophisticated clearing and settlement functions. The key functions include Real Time Gross Settlement for US dollar payments, a **delivery-versus-payment** (DvP) facility for US dollar-denominated shares, **payment versus payment** for USD/HKD and EUR/USD foreign exchange transactions, and processing of US dollar cheques. The system is also linked to the **Central Moneymarkets Unit** to cater for the DvP of US dollar denominated debt securities and **repurchase-agreement** facilities.

See also **Euro Clearing System** (歐元結算系統) and **Renminbi Settlement System** (人民幣交收系統).

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 level of 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.

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