

**Exchange Fund  
Currency Board Account  
as at 31 October 2010  
(Expressed in millions of Hong Kong dollars)**

	Notes	31 October 2010 (Market Value)	30 September 2010 (Market Value)
<b>MONETARY BASE</b>			
Certificates of Indebtedness		219,015	219,475
Government-issued currency notes and coins in circulation		8,842	8,822
Balance of the banking system		148,669	148,670
Exchange Fund Bills and Notes issued	3,4	655,621	655,603
Interest payable on Exchange Fund Notes		632	450
Net accounts (receivable)/payable	3,6	(970)	(980)
<b>Total</b>	1,3	<b>1,031,809</b>	<b>1,032,040</b> (a)
<b>BACKING ASSETS</b>			
Investment in designated US dollar assets		1,111,055	1,115,530
Interest receivable on designated US dollar assets		1,395	1,135
Net accounts receivable/(payable)	5	2,425	-
<b>Total</b>	2	<b>1,114,875</b>	<b>1,116,665</b> (b)
<b>BACKING RATIO</b> [ (b) / (a) ] * 100%	7	<b>108.05%</b>	<b>108.20%</b>

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,032,040
Increase/(Decrease) in Certificates of Indebtedness	(460)
Increase/(Decrease) in Government-issued currency notes and coins in circulation	20
Net issue/(Net redemption) of Exchange Fund Bills and Notes	23
Accrued interest on Exchange Fund Notes	182
Amortised discount/(premium) on Exchange Fund Bills and Notes	104
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(109)
Net interest expense/(income) on interest rate swaps	(34)
Revaluation losses/(gains) relating to interest rate swaps	66
Increase/(Decrease) in balance of the banking system (other than due to Discount Window Operations)	(23)
Balance carried forward	<u>1,031,809</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,116,665
Increase/(Decrease) on issue/(redemption) of Certificates of Indebtedness	(460)
Increase/(Decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	20
Interest from investments	647
Revaluation gains/(losses) relating to investments	(1,997)
Balance carried forward	<u>1,114,875</u>

3. Discount Window Operations:

- (i) Discount Window Operations involve Hong Kong dollar overnight advances made to banks by way of crediting their accounts maintained with the HKMA (which is part of the balance of the banking system) on discounting Exchange Fund Bills and Notes. In accordance with generally accepted accounting practice, the Exchange Fund Bills and Notes discounted with the HKMA are not accounted for as reductions in the liabilities of the HKMA but are regarded as securities held against the advances so made.
- (ii) For the purpose of this Account, the advances to banks secured on Exchange Fund Bills and Notes amounting to HK\$22 million as at 31 October 2010 (nil as at 30 September 2010) are shown as deductions in arriving at the Monetary Base.

4. Interest payments on Exchange Fund Bills and Notes:

- (i) Starting from 1 April 1999, interest payments on Exchange Fund Bills and Notes have been allowed to increase the amount of outstanding Exchange Fund paper.
- (ii) During October 2010, the nominal value of Exchange Fund Bills and Notes increased from HK\$652.08 billion to HK\$652.25 billion. Exchange Fund Bills and Notes issued include Exchange Fund Bills and Notes held as assets of the Exchange Fund.

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

6. Starting from June 2001, Hong Kong dollar interest rate swaps have been used as a means to manage the cost of issuing Exchange Fund Notes. For the purpose of this Account, interest payable/(receivable) and revaluation losses/(gains) on these interest rate swaps are shown as a component of the Monetary Base and are included in "Net accounts (receivable)/payable". As at 31 October 2010, there were interest receivable and revaluation gains amounting to HK\$61 million (HK\$27 million as at 30 September 2010) and HK\$887 million (HK\$953 million as at 30 September 2010) respectively.

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