

**Exchange Fund
Currency Board Account
as at 28 February 2011
(Expressed in millions of Hong Kong dollars)**

	Notes	28 February 2011 (Market Value)	31 January 2011 (Market Value)
MONETARY BASE			
Certificates of Indebtedness		237,395	249,945
Government-issued currency notes and coins in circulation		9,570	9,982
Balance of the banking system		153,638	148,650
Exchange Fund Bills and Notes issued	3,4	655,437	655,537
Interest payable on Exchange Fund Notes		515	501
Net accounts (receivable)/payable	3,6	(5,361)	(431)
Total	1,3	1,051,194	1,064,184 (a)
BACKING ASSETS			
Investment in designated US dollar assets		1,159,574	1,217,061
Interest receivable on designated US dollar assets		979	1,608
Net accounts receivable/(payable)	5	(25,682)	(69,875)
Total	2	1,134,871	1,148,794 (b)
BACKING RATIO [(b) / (a)] * 100%	7	107.96%	107.95%

Notes :

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

	<u>HK\$ million</u>
Balance brought forward	1,064,184
Increase/(decrease) in Certificates of Indebtedness	(12,550)
Increase/(decrease) in Government-issued currency notes and coins in circulation	(412)
Net issue/(net redemption) of Exchange Fund Bills and Notes	48
Accrued interest on Exchange Fund Notes	157
Settlement of accrued interest on Exchange Fund Notes	(143)
Amortised discount/(premium) on Exchange Fund Bills and Notes	110
Revaluation losses/(gains) relating to Exchange Fund Bills and Notes	(258)
Settlement of accrued interest income/(expenses) on interest rate swaps	27
Net interest expense/(income) on interest rate swaps	(33)
Revaluation losses/(gains) relating to interest rate swaps	(4)
Increase/(decrease) in balance of the banking system (other than due to Discount Window Operations)	68
Balance carried forward	<u>1,051,194</u>

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

	<u>HK\$ million</u>
Balance brought forward	1,148,794
Increase/(decrease) on issue/(redemption) of Certificates of Indebtedness	(12,550)
Increase/(decrease) on issue/(redemption) of Government-issued currency notes and coins in circulation	(412)
Interest from investments	602
Revaluation gains/(losses) relating to investments	(1,563)
Balance carried forward	<u>1,134,871</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\$4,920 million at 28 February 2011 (nil at 31 January 2011) 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 February 2011, the nominal value of Exchange Fund Bills and Notes increased from HK\$653.28 billion to HK\$653.41 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". At 28 February 2011, there were interest receivable and revaluation gains amounting to HK\$71 million (HK\$65 million at 31 January 2011) and HK\$370 million (HK\$366 million at 31 January 2011) 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.