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HONG KONG MONETARY AUTHORITY
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(Translation)

**Panel on Financial Affairs of
the Legislative Council**

**Briefing on the work of the HKMA by
Mr Joseph Yam,
Chief Executive of the HKMA**

21 November 2008

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The worst financial crisis in a century

1. Mr Chairman, since my last briefing to the Panel on Financial Affairs on the work of the HKMA at the end of April this year, the international financial environment has seen significant changes. The deterioration of the credit crisis, triggered by the US sub-prime mortgage problem, has worsened rapidly into the current financial crisis, which has been described as a once-in-a-century event. Many prestigious and influential American investment banks have been restructured, taken over or have even gone bankrupt. The collapse of Lehman Brothers in mid-September triggered the contagion of the financial crisis throughout the world. This is an unprecedented challenge faced by those responsible for monetary and financial stability.

2. Being a free and open international financial centre, the effects on Hong Kong and the challenges facing us are much more severe and difficult to deal with compared with other jurisdictions with relatively more closed financial markets. As an organisation responsible for maintaining monetary and financial stability, the HKMA clearly recognises this point. In planning and carrying out our work priorities, we have always placed great emphasis on preparing for the worst, recognising the risks that face us as a free and open market under the influence of financial globalisation, and establishing various contingency plans for different circumstances, changes, or unpredictable external shocks. We have also been actively putting forward our views at the international level, contributing to the reform of the international financial structure, improvement in the international financial order and the promotion of international financial co-operation.

3. The Financial Secretary and I, as members of the China delegation, attended the G-20 Summit held in Washington last weekend. Discussion at the Summit underlined the severity of the current global financial crisis and the risk of a global economic recession. While Hong Kong's monetary and financial situation is relatively healthy compared to the US and Europe and many other jurisdictions, discussion at the Summit also highlighted the importance of maintaining monetary stability, ensuring the normal operation of the financial system and supporting economic activities. The HKMA will pay more attention to these areas.

4. The Summit has laid down five basic principles for the reform of the international financial system: strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation and reforming international financial institutions. An action plan has also been worked out based on these five principles. We will consider the plan carefully and decide on an appropriate response. I am pleased to inform you that most of the reforms to be introduced locally and immediately mentioned in the action plan have already been carried out in Hong Kong. As regards those reforms to be done on the international level and in the medium term, the HKMA will present Hong Kong's position clearly, as a major international financial center, and actively implement these reforms. Currently, the Financial Stability Forum, which was established after the Asian financial crisis, is the main vehicle through which discussion on international financial reform is carried out. The HKMA, as a member of the Forum, will continue to actively participate in its work.

5. Mr Chairman, I will focus in this briefing on the HKMA's work in maintaining monetary and financial stability during this

once-in-a-century financial crisis. Slides 3 to 12 describe the recent development of the financial crisis, from the credit crisis to the inability of financial corporations to repay their loans to severe confidence crisis. In the interest of time, I am not going to go through these slides in details. But I will try my best to answer any questions that Members might have. Slides 5, 6 and 7 show the severity of the financial crisis.

Exchange rates

6. The US Government's decision not to rescue Lehman Brothers triggered the financial crisis and made the global foreign exchange market extremely volatile. I think there are three major reasons. First, a large amount of overseas capital was repatriated back to the US to rescue the market. Secondly, in regions outside the US, in Europe for example, investors started to realise the severity and contagious effect of the problem, and the need to re-evaluate their outlook for the economy. The third reason is the deleveraging of large amounts of exchange and interest rate arbitrage activities triggered by the crisis. As a result, the US dollar surprisingly appreciated markedly, despite the supposedly negative impact on the exchange rate of the huge amount of money that needs to be created in the US. With the exception of the Japanese yen, most of the floating Asian currencies have depreciated significantly against the US dollar, especially the Korean won, the Australian dollar and the Indonesian rupiah.

7. The global foreign exchange market has been highly volatile, which is unfavourable to the stability of the Hong Kong dollar exchange rate. However, not only there has been no depreciation pressure on the

Hong Kong dollar, it has strengthened and stayed near the level of strong-side Convertibility Undertaking. In this complex and stressful financial environment, it is refreshing to see the Hong Kong dollar remaining stable. The reasons behind its stability warrant some detailed analysis, since they will help us understand more about future developments and formulate appropriate measures.

8. There are three reasons for the strengthening of the Hong Kong dollar exchange rate. First, earlier interest rate arbitrage activities involving short selling of the Hong Kong dollar need to be deleveraged in the tightening credit environment. The second reason is the repatriation of funds by different economic sectors from overseas markets to meet their business needs and to relieve the liquidity pressure brought about by the fall in prices of financial assets. The third (less important) reason is that foreign banks, which used to obtain Hong Kong dollars from the interbank market, have resorted to selling US dollars and purchasing Hong Kong dollars to satisfy their funding requirements as a result of the local credit strain and the high Hong Kong dollar interest rates. These three factors have offset the selling pressure on the Hong Kong dollar brought about by the need of global financial funds to sell financial assets in Hong Kong and exchange the capital into foreign currencies. Of course, the international financial sector's confidence in the Hong Kong dollar Linked Exchange Rate system, in the SAR Government's determination to maintain the Linked Exchange Rate system, and in the HKMA's ability to maintain exchange rate stability, has never been shaken by this once-in-a-century financial crisis. These are the determining factors in maintaining the exchange rate stability of the Hong Kong dollar.

9. Mr Chairman, I have mentioned on different occasions that Hong Kong's monetary and financial stability does not come easily and is not a matter that can be taken for granted. Having a free and open environment makes the task more difficult, although it is also Hong Kong's strength as an international financial centre. This once-in-a-century difficulty is exactly the time when we have to stay calm, not get frightened, treasure our hard-earned assets, and work together. Imagine the situation if the Hong Kong dollar, because of factors such as confidence problems, were now weakening instead of strengthening.

Money market

10. The exchange rate is stable on the strong side, which provides an environment conducive to easing the current credit tightness. I will now describe the situation in the Hong Kong dollar money market as well as the various measures taken by the HKMA in the market during the once-in-a-century financial crisis (see Annex), including the considerations underlying them and their effectiveness.

11. The collapse of Lehman Brothers, the fourth largest investment bank on Wall Street, significantly weakened confidence in the banking industry. Banks are unwilling to lend to protect their own positions, leading to the sharply higher interbank interest rates, so that the normal functioning of the interbank market has almost come to a halt. Under this abrupt and radical situation, the HKMA responded promptly by purchasing US dollars and selling Hong Kong dollars when the exchange rate strengthened, consistent with the Currency Board principles. This has increased the Aggregate Balance of the banking system,

systematically relieving the tightness in the interbank market caused by concerns about credit risk. Up to 20 November, the HKMA had actively purchased a total of US\$3.2 billion within the Convertibility Zone and injected a total of HK\$24.8 billion into the banking system. In addition, the HKMA passively purchased a total of US\$7.1 billion after the strong-side Convertibility Undertaking was triggered and injected a total of HK\$54.8 billion into the banking system. The Aggregate Balance will increase to HK\$84.3 billion on 24 November, exceeding the record high of around HK\$55.0 billion in 2004 when the market speculated on the strengthening of the Hong Kong dollar on the appreciation of the renminbi.

12. These recent injections are conducive to lowering short-term interbank interest rates. However, longer-term interbank interest rates are still relatively rigid, because banks are still concerned about credit risk and they are more heavily affected by the US dollar interbank interest rates over the same period. Subject to the market condition and under the principle of maintaining exchange rate stability, the HKMA's liquidity injections are sustainable without any upper limit on the Aggregate Balance, so that the tightening interbank market should be able to ease further. The ultimate goal of these injections is obviously to maintain a relaxed monetary environment and, together with other measures, to try to extend it to the retail and corporate sectors, so that borrowers can overcome the economic challenges posed by the once-in-a-century financial crisis.

13. Liquidity in the banking system includes Exchange Fund bills for borrowing through the discount window or for sale in the market in exchange for cash. This monetary tool that began in the early 1990s has

demonstrated its importance in this critical time, exceeding my expectation when the plan was first implemented. The liquidity and discount window function of the Exchange Fund Bills have been well received by banks, thereby consistently raising demand for the Bills recently. To better satisfy such demand, the HKMA has recently issued an HK\$4 billion worth of additional Exchange Fund bills. This measure is technically a transfer of different components of the Monetary Base among themselves, which is consistent with the Currency Board principles. If necessary, the HKMA can continue to issue additional Exchange Fund bills.

14. Injecting liquidity into the banking system is a measure on the macroeconomic level and may not be able to function well at the level of individual banks. Despite the reluctance to lend in the interbank market, banks still have liquidity needs. If such needs are not satisfied, the affected party is likely to be clients reliant on bank credit. To deal with this problem on the microeconomic level, the HKMA introduced five temporary measures on 30 September to provide individual banks in need with collateralised liquidity, through or outside the discount window. The details have been clearly listed out when the measures were announced and I will not repeat them. The total amount of liquidity provided by these five temporary measures is about HK\$6.2 billion at present (down from a high of HK\$11.4 billion), mainly targeted at Hong Kong branches of foreign banks without a deposit base in Hong Kong and also local banks. These loans are collateralised with credit ratings of collateral to be assigned by the HKMA and there will also be appropriate “haircut” arrangements, so the risks are acceptable. The HKMA also introduced on 6 November two refinements to collateralised term lending, including extending the maximum tenor from one month to three months,

and scope for lending at a rate lower than the interbank interest rate.

15. In order to create an easier monetary environment, the HKMA has also addressed the price of liquidity by adjusting the formula for determining the discount-window Base Rate on 9 October, effectively lowering the Base Rate of the discount window by 1 percentage point and thereby lowering banks' borrowing cost of liquidity from the HKMA. Following these measures on both supply and price, the tightening credit situation in the interbank market has generally stabilised, improving the functioning of the monetary market and leading to coordinated efforts by most banks to reduce interest rates to support the economy. Provided no new events weaken confidence, Hong Kong's monetary market should be able to recover its normal functioning gradually. The HKMA will closely monitor the situation and introduce measures to smoothe market functioning at appropriate times.

16. Mr Chairman, Slides 13 to 30 set out the issues that the HKMA has paid attention to in our work of maintaining monetary stability, including the external environment, especially the situation of the Mainland's economy, the up-to-date inflation outlook and the local economic situation such as the effect of falling asset prices. For the sake of saving time, I will not elaborate in detail. If there is any question, my colleagues and I will be pleased to answer.

Banking stability

17. To put it simply, the once-in-a-century financial crisis has in fact pushed the banking systems in the US and Europe – in words from the

Managing Director of the International Monetary Fund during the annual meeting in Washington – to the edge of a total collapse. With no other options, various governments have had to implement a series of major rescue measures never seen before, using public money to bail out the whole banking system. You may have noticed that, to different degrees, the most advanced capitalist and free-market economies can now be described as socialist market economies in the area of financial affairs. A banking system driven by public ownership is no longer a unique feature of the Mainland. Of course, such a mutation does not imply the failure of capitalism. But I personally think that this is inspiring for the relations between politics and finance. It is worth exploring when we have more time in the future. At the moment, we should focus on the effect of this development on the banking industry in Hong Kong and the challenges to maintaining the robust functioning of the banking system and protecting depositors' interests.

18. I believe the various events in Hong Kong triggered by the collapse of Lehman Brothers are among the reasons for the occurrence of the bank run. The majority of investors carrying out investment activities in the retail banking network are also depositors. When their interests are affected, the general public's (not necessarily affected investors) confidence in banks must be weakened, although depositors have always enjoyed a measure of protection. The prudent supervision of banks' operations and the Deposit Protection Scheme are essential to maintaining depositor confidence.

19. The banking system in Hong Kong is robust. At the outbreak of the financial crisis, local banks had an average capital adequacy ratio of about 14%, average liquidity ratio above 40% and classified-loan ratio

below 1%. However, these objective figures are of limited effect in maintaining depositor confidence under the influence of the once-in-a-century financial crisis. The occurrence of a bank run is clear evidence of this. Of course, the bank run was settled very quickly. But the weekend (11-12 October) when the banking systems in the US and Europe were being devastated brought about unacceptable risks to the stability of the banking system in Hong Kong, especially to Hong Kong branches of US and European banks and also various local small- and medium-sized banks. It was very obvious that the risk of another bank run had increased. We therefore had to implement measures determinedly to directly enhance depositor confidence. After consulting the Exchange Fund Advisory Committee on 14 October, we announced the temporary full deposit guarantee arrangement. I have already reported the details of the arrangement to the Panel on Financial Affairs on 17 October, and I am not going to repeat them. We will continue to conduct broad-based consultation on the longer-term deposit protection arrangement after the end of 2010, and then make suggestions and propose relevant amendments to the law.

20. In fact, we should not only discuss the determination of the coverage and premium with regard to this issue. The key is to strike a balance between a clear and broad deposit protection and potential moral hazard. Overseas experience shows that moral hazard caused by deposit protection is usually reflected by how different roles of the banking system will be distorted by various incentives, reducing the efficiency of resource distribution and the whole banking system. Although such moral hazard is difficult to quantify, we still need to manage it and deal with it prudently. I hope there will be objective discussion on this matter.

21. Under the influence of the once-in-a-century financial crisis, the HKMA has adopted a three-part strategy in maintaining banking stability. The first part comprises measures to enhance depositor confidence I just mentioned. The second part is to provide the banking system or individual banks with liquidity, which has also been described earlier. The third part is to help banks maintain adequate capital and people's confidence in them, so that they can continue with their normal operation, carry out the important role of financial intermediation and offer their greatest economic support during difficult times. It is not easy for banks to raise additional capital during difficult times. On the one hand, doing so can lead to market misunderstanding of their financial position. On the other hand, there may not be enough new capital supply in the market at all. Therefore, we have implemented the Contingent Bank Capital Facility on 14 October to inject liquidity into locally incorporated banks if they are in need. This contingent arrangement is a precautionary measure and has been explained to the Panel on Financial Affairs on 17 October and so is not going to be repeated here.

22. The stability of the banking system is essential to Hong Kong at the moment. Under the influence of the once-in-a-century financial crisis, two out of the three financial intermediation channels, that is, the banks, the bond market and the stock market, have been blocked already. Listing of new companies has come to a halt while the arrangement of corporate debt issuance is also very limited. The important role of financial intermediation now relies solely on the banking channel. Maintaining banking stability is therefore the key to achieving continuous economic activity.

Banking business

23. The banking industry is facing difficulty in various areas. Depositor confidence has stabilised. Liquidity is no longer a problem. The Contingent Bank Capital Facility has also been implemented. However, factors like the sharp fall in financial asset prices and the deterioration of economic conditions are going to bring along stress to banking business. This includes the following aspects:

- (i) Banks have to make provisions and write-offs for investment loss on financial products.
- (ii) The repayment ability of various kinds of borrowers has been weakened by the financial crisis, imposing upward pressures on banks' non-performing loan ratios.
- (iii) Falling residential property prices have increased the number of mortgages in negative assets and the amount involved.
- (iv) The demand for non-traditional financial services in the banking industry has almost come to a halt, significantly reducing non-interest income of banks.
- (v) Individual banks have to provide foreign (or Mainland) branches with liquidity and capital.
- (vi) Banks have to prepare for buy-back and compensation on the Lehman-related issue.
- (vii) The global financial industry is facing structural changes. Financial innovation will be under tighter regulation. International supervisory standards will be raised, as will standards of prudent operation of banks. This is likely to increase operating costs of banks.

24. Facing a series of problems, it is understandable that banks should tighten credit. But I believe banks also have to recognise the possibility of interaction between credit tightening and economic slowdown. Once this become a vicious cycle, the pressure on banking business is likely to be even greater. According to our observation, the total amount of local loans provided by banks had been increasing month-to-month from the beginning of 2008 to the end of September. At the end of September, local loans reached HK\$2,590 billion, increasing by 14% compared with the end of last year. Although we do not yet have statistics for October, local loans might show some moderation according to banks. We will analyse the situation carefully when the relevant data is available.

25. What you may not know is that the total amount of Hong Kong dollar deposits was on a downward trend. At the end of September, the total amount of Hong Kong dollar deposit is HK\$2,950 billion, 4% lower compared with the end of last year. Despite the financial crisis and the diminishing funding sources, bank loans still recorded an increase so that the Hong Kong dollar loan-to-deposit ratio of the banking system as a whole rose from 71% at the end of last year to 81% at the end of September. The Hong Kong dollar loan-to-deposit ratio of local banks also rose from 65% at the end of last year to 73% at the end of September.

26. Of course, I agree that instead of indiscriminately tightening credit, banks should try to go through this difficult time with various borrowers, consider the overall economy and be supportive to borrowers especially SMEs. But we should also recognise that banks themselves are facing a very difficult operating environment and should prudently

manage credit risk. The HKMA will continue communication with banks, help them carry out the very important responsibility of supporting financial intermediation on their own, and help maintain smooth operation of the banking system.

A flexible approach towards the “premium” on capital adequacy ratio

27. In order to encourage banks to continue providing credit, I have two announcements to make. The first one relates to capital adequacy ratio. Currently, the HKMA requires each locally incorporated bank to maintain a supervisory minimum capital adequacy ratio that is higher than the statutory minimum capital adequacy ratio (8%), with the premium fixed according to the situation of individual banks. To help local banks better support economic activity, the HKMA will adopt a flexible approach towards the relevant premium of individual banks if necessary, so that there will be more room for them to conduct lending business. But I have to emphasise that this is a temporary measure. Banks should always prudently manage their credit risk, and it is also banks' responsibility to evaluate credit risk.

The provision of liquidity to Hong Kong banks operating on the Mainland

28. The second announcement is the arrangement for the provision of liquidity to Hong Kong banks operating on the Mainland. Being foreign banks in places outside Hong Kong, the foreign branches or subsidiaries of local banks have recently been under pressure of different

levels of severity, a result of the once-in-a-century financial crisis. The actual situation depends on the liquidity-provision measures of the relevant supervisory authorities and the attitudes of the banking industry in these places. This resembles the way the HKMA's arrangements are different for domestic and foreign banks. Cooperation among the relevant regulatory and monetary authorities is required in these circumstances. Because of this, the HKMA has been exploring with other central banks the ability of the foreign branches or subsidiaries of Hong Kong banks to borrow collateralised liquidity from the foreign central banks if necessary, while the collateral involved can be kept by the HKMA in Hong Kong or directly kept by those central banks. I am pleased to inform the Panel on Financial Affairs that the HKMA has recently worked out such an arrangement with the PBoC based on our current platform of cooperation. Hong Kong banks operating on the Mainland can approach the PBoC or the HKMA if they need liquidity support. This arrangement can help Hong Kong corporations operating on the Mainland continue to obtain financing from Hong Kong banks on the Mainland in the face of a worsening credit environment. In the long term, I hope such arrangement can become a standing monetary swap arrangement between the HKMA and other central banks, to deal with various potential problems or business need.

Lehman-related Issues

29. On the Lehman-related issue, the HKMA's work at the moment is to concentrate on handling the complaints received and preparing the report to be submitted to the Financial Secretary. The HKMA has also appointed an independent financial consultant to make sure the appraisal

of the value of mini-bonds and the buy-back arrangement are operating fairly. We have also introduced the mediation and arbitration scheme to help resolve problems between investors and banks. As for the progress of complaint investigation, the HKMA has made regular announcements. Up to now, more than 7,700 cases have already gone through initial processing while 166 cases have been referred to the SFC for further investigation and follow-up after preliminary investigation.

30. In drafting the report to be submitted to the Financial Secretary, the HKMA has been considering various relevant problems, including the policy on investor protection and supervisory principles and structure, as well as the arrangement for risk disclosure and specific supervisory measures. When studying these important issues, we will refer to the lessons learnt from the Lehman incident. We also need to take into account the changes in the wider international financial environment. The banking network can bring convenience and cost effectiveness to investors under normal circumstances and this is not to be neglected. A fair playing field between banks and securities houses is fundamentally consistent with public interests. We will thoroughly review the procedures involved in the selling of financial products by banks and the method and extent of supervision regarding the selling process so as to minimise controversy over the distribution of such products by banks in the future. We will also explore the possibility of further improvement to the existing supervisory approach in the long run. The existing approach has been in place for six years during which time retail financial products have seen rapid developments and have become more complex. Therefore, we believe that it is necessary to review the existing approach and see whether there is room for improvement. Mr David Carse has also made similar suggestions in his report on banking supervision.

Among other things, issues on the division of authority and responsibility between the HKMA and the SFC and whether it is necessary to have an independent ombudsman for the banking (financial) industry are worth studying.

31. Mr Chairman, these complicated issues together with our suggestions will be listed in our report to the Financial Secretary so that the SAR Government can formulate policy decisions.

Consultancy Report on Banking Supervision (the Carse report)

32. As mentioned earlier, the consultancy report on the HKMA's work in maintaining banking stability published in July this year, i.e. the Carse report, has also made suggestions on these issues. Consultation on the Carse report was completed at the end of October. The Panel on Financial Affairs will pick another date to discuss the content of the report. We hope that policy response can be made to other suggestions in the Carse report in the first half of next year.

Exchange Fund

33. Mr Chairman, for the sake of saving time, I will skip the report of our work in other areas of the banking sector. Please see Slides 35 to 46 for information. Our work on the development of the financial infrastructure and maintenance of Hong Kong's status as an international financial centre can be found in Slides 47 to 55. Finally, I will report on our management of the Exchange Fund.

34. The description of this year's investment environment as "difficult" fails to truly reflect the extent of problems we encountered. The once-in-a-century global financial crisis has led to huge volatilities in various financial markets. In the first three quarters of the year, stock markets across the world recorded significant falls. The situation deteriorated even more abruptly moving into October. No investors in the stock markets can escape unscathed. The credit market almost stopped functioning, with a huge surge in credit-risk premiums, dragging down bond prices. The prices of US Treasury Bills, with the lowest risk historically, can only be described as stable supported by interest rate cuts. However, the unexpected strengthening of the US dollar has also reduced the relative prices of non-US-dollar foreign currency financial assets.

35. Under such an extremely unfavourable investment environment, the Exchange Fund continued to record valuation losses in the third quarter of this year. The figure is HK\$48.3 billion. Together with the HK\$35 billion loss recorded in the first half of the year, the loss in the first nine months of the year is HK\$83.3 billion, a rate of return of -5.8%. The decrease is relatively small compared with the overall market situation, showing that the conservative investment strategy the Exchange Fund has always adopted is appropriate. Moreover, the loss is mostly caused by the loss of HK\$56.9 billion incurred from the investment in Hong Kong equities in the first three quarters of the year. These Hong Kong equities are the assets left over from the successful market operation conducted by using the Exchange Fund ten years ago. We have undertaken not to sell these equities in order not to affect the market. Therefore, the portfolio of Hong Kong equities is held by the Exchange Fund as a long-term investment due to historical reasons. In fact, if we exclude such passive investment of the portfolio of Hong Kong equities,

the rate of return of other investment portfolios in the Exchange Fund in the first three quarters of the year is only -1.9%. In addition, it is worth emphasising that the Exchange Fund has not been invested in any highly leveraged or extremely structurally complicated financial products, and has not suffered any substantial loss due to the collapse of any foreign financial institutions.

36. Investment losses recorded by the Exchange Fund will not affect the revenue of the Government this year, as the profit-sharing arrangement has been replaced by a fee arrangement. The fee rate this year is the moving average rate of return of the Exchange Fund investment portfolio in the past six years, i.e. 9.4%. The fee paid to the Treasury from the Exchange Fund of more than HK\$40.0 billion this year will not be changed. Of course, this year's loss is going to reduce the six-year moving average rate of return next year, but with a very high predictability, the Government is able to budget appropriately.

37. With the Exchange Fund experiencing investment loss, the fee paid to the Treasury is going to lower the accumulated surplus. There has been a decrease of HK\$130.9 billion already in the first nine months. You will understand that the accumulated surplus of the Exchange Fund has been suffering high volatilities in order to maintain stable revenue. In fact, this is also consistent with Members' requests in the past to transfer part of the accumulated surplus of the Exchange Fund to the general revenue account for use when the Government has financial need.

38. Mr Chairman, my colleagues and I will now be happy to answer Members' questions about the work of the HKMA. I have also arranged to deliver my speech to Members and the press.

Annex

Measures taken by the HKMA in response to the global financial crisis

Date	Action	Purpose
18 September to noon, 20 Nov	<p>Actively injecting a total of HK\$24.8 billion into the banking system</p> <p>Passively purchasing a total of US\$7.1 billion and injecting a total of HK\$54.8 billion into the banking system</p>	<p>Addressing the credit crunch in the market and the rising demand for Hong Kong dollar funds</p> <p>Unwinding of long positions in US dollars by market players drove the Hong Kong dollar exchange rate to appreciate to the strong-side convertibility undertaking. The HKMA sold Hong Kong dollars on banks' request.</p>
30 September	Five temporary measures were introduced to provide liquidity assistance to licensed banks in Hong Kong.	To expand the scope for providing liquidity assistance to licensed banks, should they require it.
8 October	The formula for determining the Base Rate was adjusted.	To lower the cost and the penalty rate for banks to obtain liquidity through the Discount Window. In the long run, this measure can help maintain stability in the interbank market.
14 October	Measures to strengthen confidence in Hong Kong's banking system, including deposit guarantee and Contingent Bank Capital Facility, were announced.	To further enhance confidence in the local banking system and maintain banking stability.
20 October	Exchange Fund Bills and Notes Programme was expanded to improve banks' liquidity management.	To meet the increased demand for Exchange Fund paper by banks for liquidity management purposes and to allow banks' access to the Discount Window and other liquidity facilities introduced by the HKMA
24 October	Guideline on Deposit Guarantee and Contingent Bank Capital Facility was issued.	To pre-empt moral hazard and imprudent business practices on the part of banks due to these two measures.
29 October	A circular on SME lending was issued to banks.	To reiterate the important role of banks in promoting economic development amid the financial crisis and to remind banks of how to strike a balance between the need to run business prudently and the provision of credit.

6 November	Two refinements to the measures for providing liquidity assistance to licensed banks were announced.	To help banks to meet their demand for additional funding towards the year end, ensure adequate liquidity within the banking system and further ease pressures in the interbank market.
19 November	A circular on Hong Kong Approach to Corporate Difficulties was issued to banks.	To emphasise that when dealing with corporate borrowers in financial difficulties, banks should remain supportive and not hastily put them into receivership or issue writs demanding repayment if they have a reasonable chance of survival.
21 November	<p>Temporary measure for adopting a flexible approach towards the “premium” on capital adequacy ratio of individual banks was announced.</p> <p>Arrangement with the PBoC for the provision of liquidity to Hong Kong banks operating on the Mainland was announced and implemented.</p>	<p>To allow banks more room to conduct lending business by adopting a flexible approach towards the premium on capital adequacy ratio of individual banks if necessary so that banks can better support economic activity.</p> <p>To help Hong Kong corporations operating on the Mainland continue to obtain financing from Hong Kong banks on the Mainland in the face of a worsening credit environment.</p>