Our Ref: S5/1C (96)
B1/15C

31 May 1999

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

<u>Forward Commitment Facility</u>

In June 1998, The Hong Kong Mortgage Corporation Limited ("HKMC") introduced a forward commitment facility ("Facility") to purchase residential mortgage loans from authorized institutions ("AIs") which are Approved Sellers of HKMC. Under the Facility, HKMC irrevocably commits to purchase from an AI an agreed amount of mortgage loans within a specified period of up to 12 months.

The Hong Kong Monetary Authority ("HKMA") recognizes that such residential mortgage loans bear the characteristics of a liquefiable asset for the purpose of calculation of the liquidity ratio. The Hong Kong Association of Banks, the Deposit-taking Companies Association, the Banking and Deposit-taking Advisory Committees have given their support to the proposal to recognize these residential mortgages as liquefiable assets. The Banking Ordinance (Amendment of Schedule) Notice 1999, which was gazetted on 30 April 1999, has amended the Fourth Schedule to the Banking Ordinance to this effect.

AIs which intend to report their residential mortgage loans covered by the Facility as liquefiable assets should seek prior approval from the MA. A policy paper setting out the HKMA's considerations for granting approval is attached (**Annex 1)**. The Return of Liquidity Position of an Authorized Institution (MA(BS)1E) and the Completion Instructions have been amended accordingly (**Annex 2**).

In the meantime, the HKMA is revising the return template of the STET and STEM systems. You will be informed of the collection arrangements in due course. For the time being, AIs which intend to claim such mortgage loans as liquefiable assets should use the hard copy return to report their liquidity positions. Other AIs can continue to report using the existing STET or STEM template.

The relevant documents are also available in the HKMA's private website for authorized institutions (http://www.hkfin.net.). Should you have any questions on the above, please contact Miss Kitty Wong on 2878 1625 or Mr Cedric Wong on 2878 1381.

Yours faithfully,

Raymond Li
Executive Director
(Banking Policy)

Encl.