Guideline No. : 6.3.1

Our Ref.: B5/12C (96)

25 October 1996

To: Chief Executives
All Licensed Banks

Dear Sir/Madam,

Real Time Gross Settlement System

With the tireless effort and dedication by all those working on the Real Time Gross Settlement (RTGS) Project, I am pleased to inform you that we are on track to cut over to RTGS on 9 December as scheduled.

2. An important task of our preparatory work is to ensure that the banks are ready to operate efficiently and effectively under the RTGS environment. Feedback obtained from the seminars and training sessions organized by the HKMA indicates that the degree of readiness for RTGS implementation varies amongst banks. While most banks have devoted a lot of resources and effort to prepare for RTGS implementation, there are others who are still not entirely familiar with the liquidity management requirements under the new system. The purpose of this letter is to remind banks once again of the need to ensure that their computer systems, operational procedures and staff are ready to operate under the RTGS environment on 9 December.

3. As you are aware, the change form next day settlement to RTGS has significant liquidity management implications. Under RTGS, banks need to maintain adequate credit balances in their settlement accounts with the HKMA for smooth CHATS payments throughout the day and for meeting the time-critical bulk clearing obligations, i.e. CCASS (10:00 a.m.), EPSCO (10:30 a.m.) and cheques (3:30 p.m.). Failure to settle time-critical payments may lead to major inconvenience to the customers, unwinding of the bulk clearing and even the suspension of the clearing facilities to the defaulting bank.

4. It is therefore important that you should make sure that :

(a) your treasury department has carefully analysed the payment pattern of your bank taking into account the size and timing of incoming payments from customers and counterparties and the bank's outgoing payments, and the size of the bank's regular bulk clearing obligations;

(b) in the light of (a) above, there is appropriate policy to ensure that there will be sufficient liquidity to meet the bank's payment obligations having regard to the need to hold sufficient Exchange Fund Bills and Notes for conducting intraday repo transactions with the HKMA; to obtain funds from the interbank market; or to actively manage the sequence and timing of incoming and outgoing payments; and

(c) the staff of front office and back office are familiar with the bank's liquidity management policy and the operational procedures of the new system, in particular the monitoring of payment flows, queue management and timely settlement of the time-critical payments, especially the settlement of bulk clearing items.

In David Carse's letter of 17 July, the key features of the new system and its intraday liquidity requirements are set out in greater detail.

5. In addition to convening a series of seminars and training sessions, a simulation test will be conducted from 16 November to 1 December enable banks to conduct trial runs in a simulated environment. You should make sure that your bank will take part in the test and that your staff will make the best use of the opportunity to gain first hand experience in operating under the new system and to fine-tune the bank's liquidity management policy. The HKMA has also set up a working group with representatives from the major banks to look at additional measures to facilitate smooth payment flows under the RTGS system. A decision on these measures will be made and announced as soon as practicable.

6. In the meantime, please do not hesitate to contact Mr. Peter Pang, Executive Director (Monetary Policy and Markets) at 2878 1663 or Mr. Esmond Lee, Head (Market Systems) at 2878 8198 to discuss any issues related to RTGS implementation. My colleagues will

visit banks in the next few weeks to review the progress of their preparation for RTGS implementation. I intend to participate in some of these visits.

Yours sincerely,