

The Monetary Authority

*Reference Manual for Government Bond
Indicative Pricings*

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Background

On 25 February 2009, the Financial Secretary announced in the 2009/10 Budget Speech that it was his intention to establish a programme of issuance of bonds, Government Bond Programme (“Programme”), consisting of institutional bond issuance programme and retail bond issuance programme. Government bonds (“GB”) under the Programme will be issued under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) for the purpose of promoting the further development of the Hong Kong bond market and the proceeds will be credited to the Bond Fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong) for such purpose and approved by the necessary Resolutions passed by the Legislative Council on 8 July 2009. Pursuant to Section 5 of the Loans Ordinance, any sum borrowed under that Ordinance and all interest and other charges thereon will be charged upon and shall be payable out of the general revenues and assets of Hong Kong.

The Monetary Authority (“MA”), as representative of the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (“HKSAR Government”) in the implementation of the Programme, is tasked to co-ordinate the offering of GB and to manage the sums paid out of the Bond Fund.

It is envisaged that the calculation and publication of a set of Indicative Pricings and Closing Reference Rates (collectively to be referred to as “indicative pricings”) for the Programme would be beneficial to the future development of the Programme by promoting market transparency.

The MA has appointed Thomson Reuters Limited to be the calculating agent of the GB indicative pricings (“Calculating Agent”).

Set out in this Reference Manual are the main features of the scheme for the GB indicative pricings, the daily operational procedures and the contingency arrangements under the Programme.

Number of indicative pricings per day

There will be one set of Indicative Pricings based on the market quotes for the GB issues as at 11:00 a.m., to be calculated and published as soon as practicable after 11:35a.m. and before 2:30p.m. on each business day, excluding the situations described under the section “Contingency arrangements for the indicative pricings” in this Reference Manual.

One set of Closing Reference Rates quotes for the benchmark issues as at 4:00 p.m. will also be calculated and published by 4:30 p.m., following the same procedures and methodologies as those employed for the Indicative Pricings.

In this Reference Manual, a “business day” means a day that is not a Saturday, Sunday or a general holiday in Hong Kong. All of the times specified in this Reference Manual refer to Hong Kong time.

Benchmark tenors for the indicative pricings

2-year, 3-year, 5-year and 10-year GB, but other tenors may be specified by the MA from time to time.

Selection and announcement of benchmark issues

Specific GB issues will be selected to represent the benchmark tenors from time to time. The benchmark for the GB will be switched following the tender of 2-, 3-, 5- or 10-year GB. The specified GB tendered will commence to serve as the benchmark for the Closing Reference Rates on its tender date and as the benchmark for the Indicative Pricings on its issue date.

The MA will update the set of benchmark issues to be used for the Indicative Pricings and for the Closing Reference Rates in the morning on the relevant indicative pricings pages described under the section “Availability of the indicative pricings information” in this Reference Manual. Any change to the existing benchmark issues will be announced at least four business days in advance.

Calculation basis

GB indicative pricings are calculated on a price basis. The Calculating Agent will calculate and publish the corresponding annualised yield-to-maturity based on the respective indicative pricings.

Schedule for input of quotes and publication of the indicative pricings

The Primary Dealers appointed by the MA will input their bid and offer quotes for the individual GB issues through the channels pre-arranged with the Calculating Agent within the specific time periods during a business day for computing the indicative pricings. The yields or prices submitted by the Primary Dealers should be their bid and offer quotes as at 11:00 a.m. and 4:00 p.m. on each business day for the Indicative Pricings and the Closing Reference Rates, respectively.

For the Indicative Pricings, the Primary Dealers will input their quotes before 11:15 a.m. and the Indicative Pricings will be calculated and published as soon as practicable after 11:35a.m. and before 2:30p.m.

For the Closing Reference Rates, the Primary Dealers will input their quotes before 4:15 p.m. and the Closing Reference Rates will be calculated and published as soon as practicable after 4:35p.m. and before 5:30p.m.

Surveillance of the indicative pricings by the MA

The Primary Dealers contribute their quotes for the indicative pricings according to their bid and offer prices of the GB issues quoted to their investors. Nevertheless, to make the indicative pricings less vulnerable to apparent errors or biases, the MA will monitor the quotes contributed by the Primary Dealers before the indicative pricings are calculated and published.

As individual Primary Dealers begin to contribute their quotes for the indicative pricings, their quotes will correspondingly be made visible at the Calculating Agent's terminal located at the MA. If the MA detects any apparent error or bias in the quotes e.g., apparently incorrect, large or unusual figures, the MA will immediately notify the Calculating Agent to remind the relevant Primary Dealers to review the accuracy of their quotes. Nevertheless, the Primary Dealers concerned will not be obliged to revise their quotes if they consider their quotes to be appropriate. The MA will regularly review with the Calculating Agent the quality of the quotes contributed by the Primary Dealers to identify whether any Primary Dealer consistently submits off-market quotes, and will discuss such situations with the Primary Dealers concerned.

In the event of an error attributable to a Primary Dealer, that Primary Dealer will correct the error and the Calculating Agent will re-calculate and publish the amended indicative pricings as soon as practicable.

In the event of an error attributable to the calculation provided by the Calculating Agent, the Calculating Agent will re-calculate and publish the amended indicative pricings as soon as practicable.

Formula for calculation of the indicative pricings

Unless otherwise determined by the MA (in exceptional circumstances), the Calculating Agent will first calculate the mid-point of the bid and offer quotes of each GB issue contributed by each Primary Dealer. Then the indicative pricings for each of the issues is derived as the arithmetic mean of the middle eight mid-point quotes, after excluding the highest and the lowest mid-point quotes.

The indicative pricings for the GB calculated will be rounded up to two decimal places. The corresponding yield for the GB derived from the rounded indicative pricings will be rounded up to three decimal places.

After a requisite number of the Primary Dealers (to be determined by the MA from time to time) have submitted their quotes for the GB issues, the indicative pricings will be calculated and published according to the established arrangements.

Contingency arrangements for the indicative pricings

Typhoon and rainstorm procedures

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is not lowered at or before 12:00 noon, there will be no Indicative Pricings or Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is lowered at or before 12:00 noon, the publication of the Indicative Pricings will be postponed to 2:30 p.m. on that day. The Closing Reference Rates will be calculated and published as usual after 4:35 p.m.

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is lowered at or before 12:00 noon on that day but is subsequently hoisted again before 2:30 p.m., there will be no Indicative Pricings or Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted after 11:00 a.m. on a business day (by which time the Indicative Pricings will have been calculated) and is not lowered at or before 12:00 noon, there will be no Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted after 11:00 a.m. on a business day (by which time the Indicative Pricings will have been calculated) and is lowered at or before 12:00 noon, the Closing Reference Rates will be calculated and published as usual after 4:35 p.m.

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is not withdrawn at or before 12:00 noon, there will be no Indicative Pricings or Closing Reference Rates for that day.

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is withdrawn at or before 12:00 noon, the Indicative Pricings will be postponed to 2:30 p.m. on that day. The Closing Reference Rates will be calculated and published as usual after 4:35 p.m.

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is withdrawn at or before 12:00 noon but a No.8 typhoon signal is hoisted before 2:30 p.m., there will be no Indicative Pricings or Closing Reference Rates for that day.

For ease of reference, the contingency arrangements under the different typhoon and black rainstorm scenarios are summarised in the table below:-

Possible combinations of No.8 ¹ Typhoon Signal and Black Rainstorm Warning		Black Rainstorm Warning		
		Not issued OR issued after 9:00 a.m.	Issued at or before 9:00 a.m. and withdrawn at or before 12:00 noon	Issued at or before 9:00 a.m. and not withdrawn at or before 12:00 noon
No.8 ¹ Typhoon Signal	Not hoisted	Indicative Pricings and Closing Reference Rates to be published after 11:35 a.m. and 4:35 p.m. respectively	Indicative Pricings postponed to 2:30 p.m.; Closing Reference Rates to be published after 4:35 p.m.	No Indicative Pricings or Closing Reference Rates
	Hoisted at or before 11:00 a.m. <u>and</u> lowered ² at or before 12:00 noon	Indicative Pricings postponed to 2:30 p.m.; Closing Reference Rates to be published after 4:35 p.m.	Indicative Pricings postponed to 2:30 p.m.; Closing Reference Rates to be published after 4:35 p.m.	
	Hoisted at or before 11:00 a.m. and not lowered ² at or before 12:00 noon	No Indicative Pricings or Closing Reference Rates	No Indicative Pricings or Closing Reference Rates	
	Hoisted at or before 11:00 a.m. and lowered ² at or before 12:00 noon, but hoisted again before 2:30 p.m.	No Indicative Pricings or Closing Reference Rates	No Indicative Pricings or Closing Reference Rates	
	Hoisted after 11:00 a.m. and lowered ² at or before 12:00 noon	Indicative Pricings already published after 11:35 a.m.; Closing Reference Rates to be published after 4:35 p.m.	Indicative Pricings postponed to 2:30 p.m.; Closing Reference Rates to be published after 4:35 p.m.	
	Hoisted after 11:00 a.m. and not lowered at or before 12:00 noon	Indicative Pricings already published after 11:35 a.m.; No Closing Reference Rates	No Indicative Pricings or Closing Reference Rates	

Note 1: Or a higher number signal.

Note 2: To a typhoon signal below No.8.

Missing quotes from Primary Dealers

The Calculating Agent will consult the MA as to whether it is to proceed with the calculation of the indicative pricings for a particular business day if the number of quotes for an individual issue falls short of the required number when the indicative pricings are to be calculated and published. To ensure that the availability of the indicative pricings will not be easily jeopardised by missing quotes from the Primary Dealers and that the indicative pricings calculated are of reasonable quality, the Calculating Agent will proceed to calculate the indicative pricings if the number of quotes is not less than ten.

Submission channel failure

In the event that the pre-arranged submission channel for a Primary Dealer breaks down due to equipment or system failure, the Calculating Agent may accept quotes from the Primary Dealers by way of facsimile or electronic mail. The Calculating Agent will input the quotes into the system on behalf of the Primary Dealer to ensure that the indicative pricings process can proceed smoothly.

Availability of the indicative pricings information**Indicative pricings information on business days**

The table below shows the availability of the information regarding the indicative pricings on each business day:

	GB Benchmark Issues		GB off-the-run issues		Advance notice for switching of benchmarks
	Indicative Pricings.	Closing Reference Rates	Indicative Pricings	Closing Reference Rates	
Bloomberg	GBHK <GO>				
Thomson Reuters	0#HKGB MIDFBM K=	0#HKGBE ODFBMK=	0#HKGB=MFIX	0#HKGB=CFIX	HKGB005
Programme Website	http://www.hkgb.gov.hk				

Disclaimer and use of the indicative pricings information

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The posting of information in the relevant pages of the news wire agencies or in the Programme website shall not in any way be deemed to be investment advice, guidance or recommendation of the HKSAR Government and it expressly disclaims any implied warranty of or fitness for a particular purpose, including without limitation, any warranty regarding the correctness, quality, accuracy, completeness, reliability or otherwise of any information provided herein. Users are responsible for making their own assessments of all the information contained in or in relation to the Programme website and are advised to verify such information by obtaining independent professional advice before acting on such information.

By reviewing or downloading any reference yield or price figure or any other information provided in this website, you accept this disclaimer and agree to its terms and conditions.

When using the Indicative Pricings and the Closing Reference Rates, the users are requested to refer to such data as “Hong Kong Government Bond Indicative Pricings” or “HKGB Indicative Pricings” and “Hong Kong Government Bond Closing Reference Rates” or “HKGB Closings” respectively, and to quote the Hong Kong SAR Government as the owner of the Indicative Pricings and the Closing Reference Rates, and all of the intellectual property rights in and to the same.