

**Government Bond Programme
Institutional Bond Issuance Programme**

Operating Procedures for Switch Tender

Background

This is the Operating Procedures for Switch Tender (“Operating Procedures”) referred to in the Information Memorandum of the Hong Kong dollar-denominated bonds under the institutional bond issuance programme (“Bonds”) of the Government Bond Programme (“GBP”) of the Hong Kong Special Administrative Region Government (“HKSAR Government”). The Monetary Authority (“MA”) is the representative of the HKSAR Government in implementing the GBP.

2. A switch tender involves the issuance of new Bonds to a successful bidder in exchange for the early redemption of an equivalent nominal value of a pre-specified issue of the Bonds from the same bidder.
3. The terms and conditions contained in this Operating Procedures (as amended by the MA from time to time) will apply to all switch tenders under the institutional bond issuance programme of the GBP. Primary Dealers should also observe any other rules and/or regulations in respect of switch tenders as prescribed by the MA from time to time.

Objective

4. Switch tender is intended to promote liquidity of the Bonds by allowing market participants to opt for the switching of a pre-specified issue of Bonds into another issue of Bonds on offer at a switch tender through competitive tender.

Eligible Counterparties

5. Switch tenders will be open only to Recognized Dealers which are appointed as Primary Dealers. Anyone wishing to participate in a switch tender can only do so through a Primary Dealer.

Nominal value-neutral

6. Switch tenders will be conducted on a nominal value-neutral basis. Specifically, the nominal value of the pre-specified issue of Bonds to be redeemed at a switch tender (“Redeemed Bonds”) that a successful bidder at that tender is to deliver to the MA for early redemption by the HKSAR Government will equal to that of the Bonds on offer at that switch tender (“Replacement Bonds”) successfully allotted to that bidder. However, the HKSAR Government reserves the right to conduct switch tenders in such other manners as appropriate.

Announcements of Tender

7. Switch tenders will be held at such times as the MA may determine. At least four business days in advance of a switch tender day, the MA will announce in a tender notice the amount(s), the issue date(s), the maturity date(s) and the interest rate(s) of the Replacement Bonds on offer at that tender, as well as the acceptable issue(s) of the Redeemed Bonds and the corresponding redemption price(s). Such announcements will be published on the Reuters screen (HKGBINDEX), Bloomberg (GBHK<GO>) and the GBP’s website (www.hkgb.gov.hk), or by any other means specified by the MA.

Tender

8. Primary Dealers should make reference to the tender procedures set out in the Information Memorandum. The MA reserves the right not to allot all the Replacement Bonds on offer at a switch tender or to scale down the allotment to a successful bidder. There is no underwriting arrangement for switch tenders.

Settlement

9. Issuance and allotment for Bonds normally takes place on the immediately succeeding business day of the relevant tender day. For switch tenders, Primary Dealers participating in a switch tender is required to input the relevant transfer instructions at or before 6:30 p.m. on the tender day for settlement on the immediately succeeding business day. At or before 10:00 a.m. on the settlement day for a switch tender, a Primary Dealer who is a successful bidder will be required to, as sole

legal and beneficial owner, deliver free from any security or other interest the required nominal value of the Redeemed Bonds to the MA (CMU Account No. AAAA000), such that the HKSAR Government can procure early redemption of such Redeemed Bonds at the price announced by the MA in the tender notice for that tender.

10. Subject to the satisfactory receipt of the required nominal value of the Redeemed Bonds from the relevant Primary Dealer at or before 10:00 a.m. on the settlement day, the MA will arrange allotment of the relevant Replacement Bonds to the Primary Dealer's main securities account (000) maintained with the MA at or about 11:30 a.m. on the same day at the price(s) in which the relevant Replacement Bonds were tendered for by the Primary Dealer.

11. To ensure timely allotment of Replacement Bonds on the settlement day for a switch tender, any Primary Dealer participating in a switch tender is to ensure that sufficient nominal value of the pre-specified issue of Redeemed Bonds is held in its main securities account by close of business of the tender day. Delivery of the required nominal value of the pre-specified issue of Redeemed Bonds to the MA will be effected by way of delivery-versus-payment ("DvP") transfer. A sample of the transfer instruction form is at **Annex 1** for reference. In addition, the Primary Dealer is to ensure that sufficient funds are available in its settlement accounts maintained with the MA for DvP allotment of the relevant Replacement Bonds. Settlement will be effected in a manner consistent with this Operating Procedures and the prevailing procedures set out in the Exchange Fund Bills and Notes Clearing and Settlement System Reference Manual (and in particular Chapter 11). Partial settlement of any switch tender is not allowed.

Failure to Effect Transactions and Penalties

12. Unless agreed by the MA in advance, if a Primary Dealer fails to deliver the required nominal value of the pre-specified issue of Redeemed Bonds (in full or in part) for its successful bid at a switch tender, the MA will treat this as a failed transaction and will conduct an outright purchase of the entire required amount of Redeemed Bonds from one or more other Primary Dealers ("Outright Purchase") as appropriate. If the MA can successfully purchase such value of Redeemed Bonds, then the defaulting Primary Dealer will no longer be required to deliver the relevant Redeemed Bonds to the MA, but will be required to pay the full cost of the Outright Purchase ("Outright Purchase Cost"). The Outright Purchase

Cost will be based on the actual purchase costs of the Redeemed Bonds incurred by the MA, which may be different from the prices quoted by other market participants, and is not to be disputed.

13. If the MA is unable to purchase the entire required nominal value of the Redeemed Bonds from any other Primary Dealers, the accepted bids of the defaulting Primary Dealer at that switch tender will all be cancelled, i.e., the defaulting Primary Dealer will be deemed to have refused to accept any of the Replacement Bonds allotted to him at that tender. The size of the switch tender will then be correspondingly reduced by the MA. The defaulting Primary Dealer will be required to pay the failed penalty as calculated by the relevant formula at **Annex 2**.

14. The MA will, at or before 12:00 noon (where practicable) on the settlement day, inform the defaulting Primary Dealer of the amount of the Outright Purchase Cost or failed penalty required to be paid in a form substantively similar to the sample at **Annex 3**. The MA will debit such specified amount from the defaulting Primary Dealer's settlement account maintained with the MA at or about 3:00 p.m. on the same day.

15. In participating in a switch tender, the relevant Primary Dealers will be deemed to have agreed to be bound by the terms and conditions set out in the Information Memorandum and this Operating Procedures, and have authorised the MA to debit in respect of the switch tender all relevant sums from their settlement accounts, with or without notice, and transfer such debited sums to any account as specified by the MA.

Monetary Authority
November 2021

B.1 Securities Transfer Form (New/Cancel*)

To : Monetary Authority
 Facsimile: (852) 2878 1676-9

Date: _____

From : _____ ()
 Name of Participant Code

Please transfer securities in accordance with the following instructions for **REAL TIME / END OF DAY SETTLEMENT#**:

For CMU Account : _____ for value on _____

DELIVER TO						
Participant's TRN (for new instruction) (max 16 char)	Participant's TRN (for cancellation)/ pool ref* (max 16 char)	Counterparty (Code)	Instrument Number	Quantity (Mn)	Settlement currency	Settlement Amount
TOTAL (A)						

RECEIVE FROM						
Participant's TRN (for new instruction) (max 16 char)	Participant's TRN (for cancellation)/ pool ref* (max 16 char)	Counterparty (Code)	Instrument Number	Quantity (Mn)	Settlement currency	Settlement Amount
TOTAL (B)						

We undertake to arrange sufficient funds in our settlement account before 4:00 p.m. for CMU settlement run.

Person to contact in case of query : _____ (Tel: _____)

HKMA use only Signature (s)/Test No. Verified by:

 Authorized Signature(s) or Test Number on total quantity
 Company Chop

- IMPORTANT:** 1. For fax or telex transmission, provide Test Number for SUM of (A) plus (B).
 2. Please send this form to CMU no later than 3:30 p.m. if to settle at CMU settlement run, 6:00 p.m. for real-time.
 3. Please quote original Participant TRN/Deal Code* and a new Participant TRN for cancellation or pool ref.
 4. Instrument number can be Issue No., Common Code or ISIN.

* Please delete as appropriate. # It must be real time for transfer of Exchange Fund Bills and Notes and Government Bonds.

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Failed Penalty

To be calculated and charged on the settlement day:

$$\text{Higher of } (V_1, V_2) \times R \times \frac{D}{365}$$

where V_1 = Value of Redeemed Bonds based on the Redemption Price announced in the relevant tender notice

V_2 = Value of Redeemed Bonds as at the settlement day based on that day's Official Fixings

R = Base Rate + 2.00%

D = Number of days from and including the tender day up to but excluding the settlement day

365 = Number of days in a year (disregarding any leap year)

“Value” will be calculated as follows –

$$\text{Value} = \text{Nominal Value} \times \left(\frac{\text{Price}}{100} + \text{accrued interest up to but excluding the settlement day} \right)$$

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Failed Transaction Notification Form

From : Monetary Authority
Facsimile: (852) 2878 1676-9
Date : _____
Participant Ref. No. : _____
HKMA Ref. No. : _____
To : _____ ()
Name of Participant Code

This is to inform you that in relation to the Switch Tender from [Issue Number of the Redeemed Bonds] to [Issue Number of the Replacement Bond] held on [DATE], your institution has not made the relevant required settlement arrangements and is deemed to have refused to accept any of the Bonds allotted to your institution.

In accordance with the terms and conditions set out in the Operating Procedures for Switch Tender and the authorization given to us in your tender application, the Monetary Authority hereby gives notice that [HK\$x] will be debited from your settlement account maintained with the Monetary Authority around 3:00 p.m. today, as calculated based on the information set out below. Terms contained herein have the same meaning as those in the Operating Procedures for Switch Tender.

Outright Purchase Cost*	
Calculated amount of failed penalty*	
V_1^*	
V_2^*	
R^*	
D^*	

Person to contact in case of query: _____ (Tel: _____)

HKMA use only
Signature(s)/Test No.
Verified by:

Authorized Signature(s) or Test Number on [HK\$x]

* Delete as appropriate.