Treasury Markets Association
Surveillance and Governance Committee Meeting
(2:30 p.m., Tuesday, 21 October 2014)

Minutes of Meeting

Location	Room 5510, 55/F, Two International Finance Centre, 8 Finance Street, Central
Members	Mr Peter Li, PricewaterhouseCoopers (Convenor) Mr Jeff Kwan, MTR Corporation Limited
In attendance	Mr Chordio Chan, Hong Kong Association of Banks (HKAB)'s representative (Observer) Mr Jack Cheung, TMA Mr Keith Kwok, HKMA and TMA Secretariat Mr Herbert Lam, HKMA and TMA Secretariat
Secretary	Mr Andy Ng, TMA
Apologies	Mr Enoch Fung, HKMA Mr Francis Ho, CLP Holdings Limited Mr Andrew Malcolm, Linklaters, Hong Kong

Preliminaries

The Convenor welcomed Members to the fourth meeting of the Surveillance and Governance Committee (the SGC).

Agenda item 1 – Confirmation of minutes of last meeting (paper TMA SGC 1406)

2. The Convenor asked if Members had any comments on the minutes of the last meeting, which had been circulated to Members ahead of the meeting. Members had no comments and the minutes were confirmed.

Agenda item 2 – Review of the quality of rate submissions and update on international developments (paper TMA SGC 1407)

3. At the invitation of the Convenor, the Secretary presented the review of the quality of rate submissions of the HKD HIBOR fixing and CNH HIBOR fixing. On the summary of pre-publication checks, the Secretary updated Members that with the help of email alert and confirmation pages, incomplete or missing submissions and fat finger errors from contributing banks had reduced significantly. Members also noted that contributing banks had turned more proactive in communicating with the respective calculating agents before the cut-off time in case they required any technical assistance.

4. On the summary of post-publication checks, the Secretary told Members that the numbers of triggers from various checks were broadly similar to those in the previous quarter. Members further noted that being an outlier itself would not be a problem from the surveillance point of view of the TMA, as long as reasonable explanations were provided.

5. Members asked whether there would be concerns in the over-reliance on automated submission process. In particular, A Member said that if the process were completely automated, the bank might not be exercising expert judgement. In response, the Secretary said that in the dialogues with contributing banks, it was noted that automation was in respect of data collection only. Relevant banks still had in place marker-checker arrangement in the rate corroboration process, which would involve expert judgement. The TMA Secretariat added that in the Code of Conduct issued by HKMA (i.e. CG-7), banks were asked to use an automated process to collect relevant information to facilitate the rate corroboration process and to exercise expert judgement in coming up with a rate submission.

6. Members discussed the movements of the HIBOR curves and implied curves, and noted the possible reasons behind.

7. The Secretary told Members that the TMA had sent out annual self-certifications for relevant banks to confirm their compliance with CG-7. Opportunity was also taken to ask relevant banks whether they would like to seek clarifications on specific sections of CG-7. The TMA would work with the HKMA to put together a list of FAQs as appropriate.

[Post meeting note: No banks have raised queries in relation to CG-7. Accordingly, there would be no need to put together a set of FAQs.]

8. In respect of the minimum numbers of submissions required for calculating FX spot fixings, the TMA Secretariat stated that the requirement for minimum number of submissions at establishment was defined as the number of contributors minus four. Subsequently, some contributors resigned from the relevant panels but the minimum number of contributors for both fixings were not adjusted accordingly. As a result, the TMA would seek approval from the Market Practices Committee for relevant adjustment.

9. On the summary of international developments, the TMA Secretariat told Members that according to the principles promulgated by the International Organization of Securities Commissions (IOSCO) (the "IOSCO Principles"), benchmarks should be, and could be demonstrated that they were, based on, an active market, and on observable, *bona fide*, arm's length transactions. Meanwhile, the Official Sector Steering Group (OSSG) formed under the Financial Stability Board (FSB) also recommended calculating the major IBORs (i.e. EURIBOR, LIBOR and TIBOR) based on actual transactions, if market conditions permit. The Secretariat remarked that as an international financial centre, Hong Kong should reform its benchmarks alongside these international standards as much as possible, having regard to local conditions. He also told Members that the TMA was collecting transaction data from relevant institutions and conducting feasibility studies on transaction-based HIBOR and spot FX fixings.

10. A Member said that a number of changes were already made following the last HIBOR Review in 2012 (e.g. phasing out certain tenors with no market demand), and asked what would be the scope of change this time. In response, the TMA Secretariat said that the HIBOR Review in 2012 was conducted by drawing reference to the UK Wheatley Report on LIBOR. Since then, there had been new international developments, e.g. the promulgation of the IOSCO Principles and the OSSG recommendations. In this connection, there would be a need to (i) study whether Hong Kong had sufficient market conditions to reform its interest rate benchmarks alongside the international recommendations; and (ii) if so, what would be a suitable calculation methodology. The Secretariat added that the Association would conduct

relevant consultations in the process, which would cover not only contributors, but also users such as corporates, insurance companies, and fund managers.

Agenda item 3 –Report on issue in relation to discrepancy between real-time and historical data for HKD HIBOR

11. The Secretary presented the paper. A Member asked if the fixing calculations and the surveillance quality had been affected by the issue. The TMA Office responded that the TMA had conducted back-testing based on the revised data, and the results suggested that the fixing calculations were intact, and the surveillance quality was not compromised.

Agenda item 4 – Any other business

12. The Secretary told Members that the Singapore Exchange (SGX) recently started a USD/CNH futures contract which made reference to the TMA USD/CNY(HK) fix, but SGX did not inform the TMA about using our fixing. The Secretary asked if Members had any views on this matter, given that the fixing was not copyrighted or patented. The TMA Office added that the general stance of the TMA was to encourage other market players to use our fixing. The Convenor suggested that reference be drawn to the relevant arrangement of the Hong Kong Association of Banks (HKAB) for the use of HKD HIBOR fixing. The Secretary undertook to liaise with the HKAB Secretariat in this regard.

[Post-meeting note: Having enquired with the HKAB Secretariat, it was noted that they did not have any guidelines on structuring products based on HKD HIBOR. It was noted that the situation for HKD HIBOR was similar to the TMA FX fixings, i.e. it was public information and not copyrighted or patented.]

13. There being no other business, the meeting adjourned at 3:30 p.m.

Treasury Markets Association
11 December 2014