

**Treasury Markets Association
Surveillance and Governance Committee Meeting
(2:30 p.m., Wednesday, 21 June 2017)**

Minutes of Meeting

Location	Room 5606, 56/F, Two International Finance Centre, 8 Finance Street, Central
Members	Mr Peter Li, PricewaterhouseCoopers (Convenor) Mr Barry Yip, HKMA Mr Francis Ho, CLP Holdings Limited Mr Jeff Kwan, MTR Corporation Limited
In attendance	Mr Jack Cheung, TMA Mr Kim Hung Li, HKMA/TMA Secretariat Mr Alex Kwok, HKMA/TMA Secretariat Mr Chorido Chan, Hong Kong Association of Banks (HKAB)'s representative (Observer)
Secretary	Mr Andy Ng, TMA
Apologies	Mr Andrew Malcolm, Linklaters, Hong Kong

Preliminaries

The Convenor welcomed Members and Observer from HKAB to the twelfth meeting of the Surveillance and Governance Committee (SGC).

Agenda item 1 – Declaration of any conflicts of interest and discussion of declared interest (if any) (paper TMA SGC 17/05)

2. The Secretary presented the item. The Convenor elaborated on his declared interest with PricewaterhouseCoopers. He is employed by the firm and the firm advises clients on regulatory compliance including on financial benchmark. His role in this advisory service has been limited to updating clients about regulatory trend.

3. The Committee discussed declared interests and considered there is no material potential or existing conflict of interest in relation to SGC. The Convenor reminded Members to report to the TMA Office promptly if any new potential conflicts of interest arise.

4. The Secretary updated Members that measures will be taken to enhance the management of conflicts of interest, including (i) developing policy on SGC meeting including the presence of observer when discussing sensitive issues; (ii) documenting SGC's review of conflicts of interest of TMA benchmark function; (iii) developing conflicts of interest policy (including declaration form) for TMA Office for TMA staff; (iv) developing policy for TMA Office on audit trails of all written and verbal communications involving risk of conflicts of interest; and (v) identifying regular training courses on conflicts of interest for TMA Office.

Agenda item 2 – Confirmation of minutes of last meeting (paper TMA SGC 17/06)

5. Members had no comments on the minutes of the last meeting. The minutes were confirmed.

Agenda item 3 – Review of TMA's benchmark specifications (paper TMA SGC 17/07) [For approval]

6. The Secretary presented the item. A Member indicated that for HKD HIBOR, it is important to avoid any discrepancy caused by different wordings used by benchmark owner and administrator, as they

are two different entities. The Secretary responded the TMA Office will work with the HKAB to synchronise benchmark specifications for HKD HIBOR. After deliberation, Members agreed on the proposed changes to benchmark specifications, which are for TMA-administrated benchmarks to better follow IOSCO Principles.

Agenda item 4 – Strengthen consultation and complaints policies (paper TMA SGC 17/07) [For approval]

7. The Secretary presented the item. After deliberation, Members agreed on the proposed changes to the policies to better follow IOSCO Principles.

Agenda item 5 – Review of the quality of rate submissions (paper TMA SGC 17/08)

8. The Secretary presented the item. Members noted the incident of inclusion of a forward trade in calculation for USD/CNY(HK) Spot Rates on 12 April 2017. The TMA Office identified a trade with an outlying price during daily post publication check on 12 April. Upon checking with the contributing broker, the TMA Office confirmed that the trade in concern was a forward trade rather than a spot trade. The forward trade was included in Spot Rate determination because the type of contract of the forward trade was wrongly entered as a “spot” rather than a “forward” by the contributor. To prevent similar incident in future, the calculation agent agreed with the TMA on putting in place additional filtering arrangements: only those trade whose settlements are T+2 will be included in Spot Rate determination. Implementation time of this enhancement is scheduled for 26 June 2017.

9. Members noted the incident of unnecessary rounding during calculation for USD/HKD Spot Rate on 15 May 2017: The TMA Office identified a discrepancy between TMA Office’s calculation and calculation agent’s calculation on the value of USD/HKD Spot Rate

during daily post publication check on 15 May. After investigation, it is found out that the calculation agent system default is to round the trade prices of the raw data to 4 decimal places before sorting the trades into a sequence based on prices and volumes. However, after sorting, the benchmark value is calculated as the median of the sequence of trade using the original unrounded trade prices. To undo the effect of the unnecessary rounding, the calculation agent will put in place a new system command to multiply the trade prices of the raw data by 10,000 before sorting. Implementation of this enhancement is scheduled for 26 June 2017.

10. Members noted the incident of missing trades from a contributing broker for both USD/HKD and USD/CNY(HK) Spot Rates on 15 May 2017. A contributing broker failed to deliver data to the calculation agent on 15 May due to feed outage caused by restart of applications and services during the 13-14 May weekend. The contributing broker noted that they would put in extra efforts to prevent similar incident from happening in the future. Also the contributing broker has agreed to notify the TMA of any system restart or update in advance. Members suggested reminding all contributing brokers to notify the TMA in advance prior to any system restart or update in the future.

Post-meeting note: The Secretary sent reminders to all contributing brokers on 23 June 2017.

11. Members noted that no anomalies were identified in the benchmark determination process of HIBORs. Relevant CNH and HKD HIBOR contributing banks were able to provide valid rationale to explain the basis of their submissions when approached by the TMA. Members discussed and generally agreed that the implied curves still acted as a reasonable proxy for actual HIBOR curves insofar as surveillance was concerned. Members also noted that there were no anomalies in the determination of TMA's Spot Rates and HONIA.

Agenda item 6 – Review of surveillance framework – adjusting the price tolerance check on trades used to calculate FX Spot Rates (paper TMA SGC 17/08)

12. The Secretary presented the item. The TMA Office supplemented that the benchmarks were calculated as the volume-weighted median of eligible transactions, and this averaging methodology, by design, would reduce the effect of outliers on the calculated benchmark rate. After deliberation, Members considered the existing practices are effective in removing input error such as fat finger error and agreed on keeping the current levels of thresholds for price tolerance check for TMA Spot Rates.

Agenda item 7 – Update on international and local developments (paper TMA SGC 17/08)

13. The Secretary presented the item and highlighted the Euribor will not transit to fully transaction-based. Members noted the various developments, and further discussed the business trend in the interbank funding market.

Agenda item 8 – Any other business

14. With no other business, the meeting adjourned at 3:35 pm.

**Treasury Markets Association Office
17 October 2017**