

**Treasury Markets Association**  
**Surveillance and Governance Committee Meeting**  
(2:30 p.m., Thursday, 27 July 2023)

**Minutes of Meeting**

Location	Room 5501D, 55/F, Two International Finance Centre 8 Finance Street, Central, Hong Kong
Members	Mr Peter Li, PricewaterhouseCoopers (Convenor) Ms Kimberly Cheng, Hong Kong Monetary Authority Mr Andrew Malcolm, Linklaters, Hong Kong Mr Francis Ho, CLP Holdings Limited Mr David Pang, MTR Corporation Limited
In attendance	Mr Chordio Chan, TMA Mr Wilson Wong, Hong Kong Association of Banks (HKAB)'s representative (Observer) Mr Edward Tan, Hong Kong Monetary Authority Mr David Tsang, TMA
Secretary	Mr Andy Ng, TMA
Apologies	Nil

**Preliminaries**

The Convenor welcomed Members to the 31st meeting of the Surveillance and Governance Committee (SGC).

**Agenda item 1 – Measurement of the HKD-USD interest rate spread after LIBOR transition**

2.           The HKMA would like to take the opportunity to present the measurement of the HKD-USD interest rate spread after LIBOR transition prepared by the HKMA to the SGC. The HKMA presented the historical difference between HIBOR-SOFR and HIBOR-LIBOR spreads respectively and further explained the fundamental differences between SOFR and LIBOR, that SOFR was collateralised whereas LIBOR was uncollateralised. The HKMA further added that by the same token, HIBOR (uncollateralised rate) could be higher than SOFR (collateralised rate) but not necessarily due to Hong Kong-specific risk premium. As the HKD-USD interest rate spread has a correlation with the USD/HKD FX level and the general public and media may quote these two terms from time to time, it might be helpful to educate the media who can then help explain to the general public when needed even though this subject is quite technical in nature.

**Agenda item 2 – Declaration of any conflicts of interest and discussion of declared interest (if any) (paper TMA SGC 23/08)**

3.           Members noted that both Calculation Agents' annual attestation arrangements for Code of Conducts had been completed respectively by late March 2023.

**Agenda item 3 – Confirmation of minutes of last meeting (paper TMA SGC 23/05)**

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

**Agenda item 4 – Strengthen fallback arrangement of HONIA (paper TMA SGC 23/09)**

5. The Secretary presented the paper. Members were updated that an increase in HONIA usage, especially from overseas, has been observed since the LIBOR transition because certain financial institutions have switched from IBOR curve to risk-free rate curve for discounting or valuation purpose. This applies not only to LIBOR currencies but all global currencies including HKD. According to the existing fallback arrangements for HONIA, users of benchmarks are strongly encouraged to include their own contingency arrangements following ISDA Definitions. As the ISDA Definitions is mainly aimed at derivatives, the TMA is reviewing whether there is a need to adopt a fallback arrangement for cash products. A member suggested the TMA exercise extra care when amending the Specifications of the Benchmark in order to avoid potential conflicts with the ISDA definitions. A member echoed and recommended to consult market participants from money market funds. A member suggested that the TMA review all the fallback arrangements of TMA administered benchmarks including the FX benchmarks for which there are suggestions from users to maintain publication under severe weather conditions such as typhoons.

*Post-meeting note: The TMA will review all the fallback arrangements of TMA administered benchmarks and present the findings to the relevant committees including SGC.*

#### **Agenda item 5 –Review of the quality of rate submissions (paper TMA SGC 23/10)**

6. The Secretary presented the item. Members discussed the HONIA incident on 25 May 2023, incident arising from the technical issues of the calculation agent of HKD HIBOR on 23 June 2023, CNH HIBOR incident on 26 June 2023 and HKD HIBOR incidents respectively on 3 July and 12 July 2023. The Secretary reported that a site visit to HKD HIBOR contributing bank, which had reported a number of error cases, was conducted on 20 July 2023 and resulted in a robust conversation including reviewing previous proposed remedies with relevant implementation. The Convenor suggested to query contributing

banks on the actual effectiveness of controls established to detect errors during pre-publication especially for cases where errors are reported only post publication.

*Post-meeting note: The TMA will incorporate such query into the regular dialogue with contributing banks.*

7. Members noted that no anomalies were identified in the benchmark determination process of HIBORs. The relevant CNH and HKD HIBOR contributing banks were able to provide valid rationale to explain the basis of their submissions when approached by TMA. Members generally agreed that the implied curves still acted as a reasonable proxy for the actual HIBOR curves insofar as surveillance was concerned. The Secretary reported that all possible available alternative benchmarks to replace USD LIBOR such as CME Term SOFR, SOFR futures as well as SOFR Averages (compounding) are being used in calculating the implied curves post LIBOR transition. Members also noted that there were no anomalies in the determination of TMA's Spot Rates and HONIA.

#### **Agenda item 6 – Update on international and local developments (paper TMA SGC 23/10)**

8. Members were updated on the USD LIBOR cessation on 30 June 2023, result of public consultation on fallback issues for TIBOR, the respective statements from US Alternative Reference Rates Committee (ARRC) and the International Organisation of Securities Commission (IOSCO) on scope of use for Term SOFR as well as the European Commission's draft act to extend transition for non-EU benchmarks' usage until end of 2025 (which subject to a scrutiny of 3 months). Members discussed the implications of these international developments on the benchmarks under the TMA's purview. Members were also updated on feedback submitted by the TMA to the consultation on supporting proposed changes to the local OTC derivatives Clearing Rules in order to align with the global interest rate benchmark reform.

**Agenda item 7 – Any other business**

9. With no other business, the meeting adjourned at 3:45 p.m.

**Treasury Markets Association**  
**28 July 2023**