

Consultation conclusion on technical refinements to HKD Overnight Index Average (HONIA)

1. BACKGROUND

- 1.1 As HONIA has been identified as the alternative reference rate (ARR) for Hong Kong Interbank Offered Rates (HIBOR), the Treasury Markets Association (TMA) proposed three technical refinements to HONIA to enhance its robustness and representativeness, covering:
- (a) data source;
 - (b) reporting window; and
 - (c) publication time.
- 1.2 On 1 April 2019, TMA launched a five-week public consultation. The Consultation Paper¹ sought industry stakeholders' views on the proposed refinements.
- 1.3 The consultation closed on 7 May 2019. TMA received a total of 10 written responses.
- 1.4 This consultation conclusion summarizes the responses to the consultation questions, and provides TMA's responses and future plan.

¹ https://www.tma.org.hk/en_newsevents_n1.aspx?newsId=333

2. SUMMARY OF CONSULTATION RESULTS

(a) Data source

- 2.1 The Consultation Paper proposed directly capturing overnight interbank funding transactions from the banks (see para. 17(a) of the Consultation Paper).
- 2.2 While a majority of the respondents supported the proposal, some respondents suggested that a reasonable number and mix of banks should be maintained to strike a balance between market coverage, diversity and administrative effectiveness. At the same time, one respondent noted that the proposed change may increase banks' costs and operational risks as a result of expanded duties, processes and controls.
- 2.3 In terms of the data to be collected, one respondent commented that all intra-group and intra-bank transactions should be excluded. Another respondent suggested that trade data could be collected via post-trade facilities to enhance data integrity.
- 2.4 Several respondents highlighted the need for TMA to provide clear guidelines and code of conduct on data collection and submission.

TMA's responses

- 2.5 TMA will conduct further study of the interbank funding market to examine whether there is room for enhancing the representativeness of HONIA in terms of data source and sample size. In particular, TMA will try to strike a right balance between market representativeness and operational effectiveness. For the time being, TMA will continue to calculate HONIA based on the five contributing money brokers' data.

(b) Reporting window

- 2.6 The Consultation Paper proposed extending the reporting window to 8:00–17:00 on each Hong Kong business day to better reflect the local market conditions (see para. 17(b) of the Consultation Paper).

- 2.7 Most respondents supported the extension of the reporting window. One respondent suggested that the reporting window should be extended till 18:00.
- 2.8 Some respondents suggested that the TMA should conduct further analysis to evaluate the volume of transactions captured during the extended window and the potential impact on the publication time.
- 2.9 One respondent commented that the current practice should remain unchanged as the HKD interbank market mainly starts at about 9:00 and market liquidity becomes scarce after 16:00.

TMA's responses

- 2.10 Anecdotal evidence suggests that transactions are relatively rare after 16:00. Therefore, it may not add much value by postponing the closing time beyond 16:00. In contrast, activities seem to be quite active in the early morning. In this light, TMA will change the reporting window to 8:00-16:00 to capture more transactions in the morning session. That said, TMA will continue to closely monitor the intraday turnover pattern and review the appropriateness of the reporting window from time to time.

(c) Publication time

- 2.11 The Consultation Paper proposed changing the publication time of HONIA to the following business day in light of the proposed extension of the reporting window, with a view to allowing more time for compilation (see para. 17(c) of the Consultation Paper).
- 2.12 All except two respondents had no objection to the proposed change. Specifically, the two respondents opposed to it on the ground that if HONIA is published on a T+1 basis, central clearing counterparties (CCPs) would be forced to use HONIA proxies or the HONIA fixing on T-1 for price alignment interest (PAI) calculation, which may undermine the value of the benchmark and increase operational risk. A corresponding delay in the publication of HONIA to 18:00 on the same business day was therefore suggested.
- 2.13 If HONIA is to be published on the following business day, several respondents

suggested that the publication time should be set in the morning, preferably no later than 11:00, to maintain the relevance of the benchmark to market participants and ensure sufficient time for system input, process confirmation and settlement.

- 2.14 Some respondents urged TMA to provide a reasonable transition time for the industry's migration to T+1 publication.

TMA's responses

- 2.15 Since the closing time remains at 16:00, there is no strong need to publish HONIA on a T+1 basis. In order to facilitate the use of HONIA for discounting and PAI calculation by CCPs and market participants, TMA will continue to publish HONIA on a same-day basis.

3. WAY FORWARD

- 3.1 TMA will undertake a study of the interbank funding market to examine whether there is room for enhancing the representativeness of HONIA. The study will focus on two key issues, data source and sample size.
- 3.2 TMA will discuss with the contributing money brokers and calculation agent on the extension of the reporting window to 8:00-16:00.

Treasury Markets Association
December 2019