



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

23 October 2019

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reform of interest rate benchmarks

I am writing to update you on the latest developments relating to the reform of interest rate benchmarks and the next steps that the Hong Kong Monetary Authority (HKMA) plans to take to monitor the progress of authorized institutions (AIs) in preparing for the transition from interbank offered rates (IBORs) to alternative reference rates (ARRs).

Since our previous circular on the same subject was issued on 5 March 2019, international authorities, standard-setting bodies and industry organisations have made significant progress in laying down the critical elements for the transition. These include the ongoing developments of term rates for ARR and spread adjustments that can be applied to ARR to address the differences between ARR and IBORs, standard documentation for loans and debt securities with floating rates linked to ARR and fall-back languages that can be adopted in financial contracts referencing IBORs to cater for the scenario of IBOR discontinuation. Some organisations, such as the Alternative Reference Rates Committee in the US, also published practical guidance on how market participants can prepare for the transition.

Locally, the Treasury Markets Association (TMA) has identified the Hong Kong Dollar Overnight Index Average (HONIA) as the ARR to the Hong Kong Interbank Offered Rate (HIBOR) and there is no plan to discontinue HIBOR. The TMA has completed a public consultation on some technical refinements to HONIA and will release the results in due course. The Working Group on Alternative Reference Rates formed under the TMA has convened regular meetings to discuss issues arising from the reform, with a view to helping local market participants prepare for possible discontinuation of the London Interbank Offered Rate and to facilitating the adoption of HONIA by market participants. AIs are expected to keep abreast of both international and local developments of the benchmark reform and take them into account in their preparation for the transition.

The HKMA observes that many AIs have made progress in preparing for the transition to ARR. To monitor the development, the HKMA will start conducting a regular survey shortly to collect information on AIs' exposures referencing IBORs and the progress of their preparatory work for the transition. The HKMA will take suitable follow up actions having regard to the survey results of individual institutions.

Should you have any questions about this letter, please contact Mr Gordon Wong on 2878-1272 or Mr Anthony Choy on 2878-1547.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)