



LIBOR Client Alert



9 April 2019

TMA consultation on the alternative reference rate for HIBOR

On 1 April 2019, the Treasury Markets Association (“TMA”) released a [consultation paper](#) on issues relating to the alternative reference rate (“ARR”) for the Hong Kong Interbank Offered Rate (“HIBOR”).

The TMA has identified the HKD Overnight Index Average (“HONIA”) as the ARR for HIBOR, after reviewing the characteristics of ARRs for the LIBOR currencies and taking into account the Financial Stability Board’s guiding principles. HONIA is a nearly risk-free overnight interbank funding rate based solely on transaction data.

To enhance the robustness and representativeness of HONIA, the TMA has proposed the following technical refinements:

- a) *Data source:*
Currently, HONIA captures overnight interbank funding transactions routed through a number of money brokers. Following similar practices adopted by other major currency areas for their ARRs, transaction data for HONIA may be directly collected from the primary source (i.e., banks).
- b) *Reporting window:*
Under the current methodology for HONIA, all eligible transactions between 09:00 and 16:00 on every Hong Kong business day should be reported. To better reflect local market conditions, the TMA has suggested extending the reporting window to 08:00 – 17:00 on each Hong Kong business day.
- c) *Publication time:*
HONIA is currently published on a same-day basis. In light of its proposed extension of the reporting window as per (b) above, the TMA proposes changing the publication time of HONIA to the following business day to allow more time for compilation.

The TMA invites industry stakeholders’ feedback to the proposed refinements to HONIA. The consultation will close on 30 April 2019.

The future of HIBOR

While LIBOR will likely phase out of usage at the end of 2021, the TMA noted in the consultation paper that HIBOR is a benchmark widely recognised by market participants and is deemed desirable and necessary to remain in use. While the HKMA and TMA are proposing HONIA as the ARR for HIBOR, there is yet to be clear guidance on the ultimate future of HIBOR. There is a possibility that both HIBOR and HONIA will co-exist as benchmark reference rates in Hong Kong. We recommend that banks continue to monitor developments in this regard and make preparations ahead of any forthcoming changes. In particular, banks should use the intervening period to understand and analyse the potential business and operational impacts of transitioning from LIBOR to LIBOR ARRs and/or HIBOR to HONIA.

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