

Joseph Yam, JP: Hong Kong Foreign Exchange and Money Market Practices Committee

Opening remarks by Mr Joseph Yam, JP, Chief Executive of the Hong Kong Monetary Authority, at the inaugural seminar of the reconstructed Hong Kong Foreign Exchange and Money Market Practices Committee, held in Hong Kong on 16 January 2001.

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Good afternoon

Mr Powell,

Mr Mathieson,

Guests,

Ladies and Gentlemen,

1. I am delighted to welcome all of you to today's seminar. This is the inaugural seminar of the reconstructed Hong Kong Foreign Exchange and Money Market Practices Committee (MPC). The organisation of seminars by the MPC will, I hope, provide bankers, treasurers and other market practitioners with an opportunity to focus on issues of common interest. It will help specifically to fulfil at least two of the objectives of the MPC: to promote understanding and expertise relevant to the markets; and to encourage communication among market participants and professional bodies, both local and overseas.

2. The MPC was first established in 1992, as a non-statutory body, with the mandate to give advice on matters relating to the health and development of Hong Kong's foreign exchange and money markets. Last year was a year of restructuring and recovery for Hong Kong, and the MPC seems to have been following very much the same path. After a review of its functions, the Committee decided to restructure itself, with a view to playing a fuller role in developing and promoting the forex and money markets in Hong Kong. It has broadened its representation and established three sub-committees, which deal with issues ranging from market practices and product development to training and education. The Committee also expects to adopt a higher profile – for example, through the publication of standard documentation and promotional literature, and by organising seminars of the kind that we are having today.

3. The reconstructed MPC has already begun to show achievements. Some of its contributions may seem a little quaint, such as its work in formulating a set of standard typhoon and rainstorm procedures for settling foreign exchange and money market transactions under extreme weather conditions. But just imagine the chaos and confusion if everyone were to adopt a different methodology for interest calculations and use a different date to settle the trades every time the markets close down because of bad weather. The MPC has also been advising the HKAB on other payment and settlement standards. Again, the advice given may seem insignificant or prosaic, like the creation of a standard format for the settlement code needed by participants in our new US dollar clearing system; but it is often tiny creations like this one that go a long way towards strengthening efficiency in payment and settlement systems.

4. Apart from this “domestic” work, the MPC has also served as a window connecting the local forex and money market industry with the outside world. It has already started to strengthen its ties with overseas foreign exchange committees. These efforts help to keep local practitioners abreast of what is going on in overseas markets, and of product development, as well as codes and standards. This is important in ensuring that the professionalism of market practitioners in Hong Kong can be maintained at internationally accepted levels.

5. In this connection, the MPC has recently been consulted on the draft Model Forex Guidelines prepared by an international private sector task force under the encouragement of a small group of central bank sponsors, including the HKMA. The draft Guidelines are formulated to ensure that the industry will follow the best market practices and avoid potentially problematic trading practices, such as trading at illiquid hours or spreading rumours and false information. The MPC has expressed support for the draft and will consider incorporating the proposed Guidelines into its Code of Conduct for Hong Kong practitioners. This is a very positive move. An abundance of international financial activities take place in Hong Kong. The adoption of the proposed Guidelines in Hong Kong will go a

long way towards enhancing the integrity of our markets and sustaining the development of Hong Kong as an international financial centre. It will also contribute to greater financial stability in our domestic markets.

6. There are a number of future challenges that the forex and money markets players will have to face, including the changing landscape of the industry. In a number of ways I feel that the world's foreign exchange and money markets may have reached something of a watershed in the past year or so. We have witnessed a reduction in the number of significant world currencies as a result of the arrival of the euro. We have also seen accelerating consolidation among the ranks of major players. These two factors have tended to reduce the volume of interbank business. Meanwhile the traditional market infrastructure is being supplemented and challenged by the emergence of new electronic trading platforms. And, while there has already been for many years a strong momentum for product innovation, the pressure to sustain profits may most recently have intensified that search. At the same time the regulators are as anxious as ever to ensure that risks are properly understood (both by themselves and by the bankers) and appropriately managed. I am sure that the MPC will play a useful role in helping the industry meet this challenge, by providing training for new practitioners and continuing its work on product development. The recent study on the feasibility and desirability of introducing overnight index swaps in Hong Kong is one good example of this work.

7. I should perhaps stop here to avoid encroaching further on the valuable time set aside for our guest speaker today. Donald Mathieson of the IMF is no stranger to Hong Kong. Many of you will be familiar with the authoritative reports and analysis of financial markets that he and his colleagues produce. We are fortunate in having been able to grab him for a couple of hours today while he is briefly passing through Hong Kong. It is my pleasure to welcome him and to join with you all in the launch of this seminar, which will, I hope, be the first of many organised by the MPC over the coming months and years.

8. Finally, let me record my gratitude and congratulations to all the Committee members of the MPC for the excellent work they have put into the reconstruction of the Committee, and my thanks to everyone here for supporting this event today.