

Peter Pang: Developing critical financial infrastructure between Hong Kong and Thailand

Opening remarks by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority, at the HKMA-BOT Joint Press Conference on the Launch of US Dollar – Thai Baht PvP Link, Hong Kong, 28 July 2014.

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Deputy Governor, ladies and gentlemen,

1. Good afternoon. It is my great pleasure to welcome you all to this press conference jointly organised by the Hong Kong Monetary Authority (HKMA) and Bank of Thailand (BOT). I would like to thank Deputy Governor Mr. Krirk Vanikkul for joining me here to announce the launch of the payment-versus-payment (PvP) link between BAHTNET, the Thai Baht Real Time Gross Settlement (RTGS) system in Thailand, and the US dollar RTGS system in Hong Kong.
2. Time flies. About a year ago the HKMA and BOT announced in Bangkok to build this PvP link. With the concerted effort of colleagues on both sides, the link went live today as scheduled, after completion of the system development and meticulous testing with the users. The banks in both jurisdictions have been fully engaged to ensure maximum readiness, on both technical and business fronts, for the launch of the link.
3. This PvP link is an iconic project that symbolises the determination of the HKMA and BOT to work together to promote financial integration and financial stability in the region through the linkage of critical financial infrastructure. It will bring significant benefits in three areas.
4. First and foremost, this PvP link will help eliminate settlement risk in US dollar-Thai Baht foreign exchange (FX) transactions. Prior to this link, the settlement of the two currency legs was done in different time zones and in an uncoordinated manner – Thai Baht (THB) in the Asian time zone, followed by US dollar (USD) during New York hours. With the new PvP link, all payments can be made within the Asian time zone and in a coordinated manner by adopting the PvP mode. Under this arrangement, when a Thai Bank delivers (or receives) THB to (or from) its counterparty in Bangkok, the correspondent bank of the Thai Bank in Hong Kong receives (or delivers) USD at the same time. Hence, the risk due to time lag in settling the two legs of the FX transaction can be removed.
5. Second, the reduction in FX settlement risk will open up new business opportunities for banks in both Thailand and Hong Kong. USD against THB transactions accounted for about 75% of Thailand's FX transactions in 2013. Through this link, banks in Thailand can benefit from the highly flexible and cost-effective solution offered by the USD RTGS system in Hong Kong for managing the settlement risk of their USD FX transactions. The seven-and-a-half-hour PvP window offers a high degree of convenience to the system users. With an average daily turnover exceeding USD22 billion and over 90 participating banks (including 18 that have a significant presence in Thailand), our USD RTGS system in Hong Kong provides ample USD liquidity and easily accessible correspondent banking service to Thai banks for the PvP service. This should help them develop a wider range of banking services and financial products in Thailand. At our end, banks in Hong Kong will find new correspondent banking opportunities through serving Thai banks in settling their USD FX transactions in Hong Kong. I am sure this new relationship will create opportunities for commercial cooperation on other fronts.

6. Third, the link will also help banks comply with supervisory requirements relating to the management of FX risk in a cost-effective manner. In February 2013, the Basel Committee on Banking Supervision issued an updated guidance on management of FX risk, which recommends that banks should reduce principal risk as much as practicable by settling FX transactions through the use of financial market infrastructure that provides PvP settlement. This recommended best practice is being implemented by bank supervisors on a global basis. The decision of BOT to implement the PvP link will certainly facilitate banks and the payment and settlement systems in Thailand to meet these recommended standards in good time.
7. While these are all good reasons to introduce the PvP link, its success will depend on the commitment and dedication of all parties concerned. The HKMA and BOT are fully committed to the successful implementation of this PvP link. Over the past year, exceptional effort has been made by BOT to engage Thai banks to encourage participation and adequate preparation for its implementation. On our side, apart from rendering support on the technical front, we have been in close dialogue with the participating banks of the USD RTGS system, especially those active in correspondent banking activities, to facilitate Thai banks to identify suitable correspondent banking service providers in Hong Kong. These efforts are bearing fruit. About half of the banks in Thailand, including most of those active in the FX market, participated in the pre-launch tests together with their USD correspondent banks in Hong Kong. On the back of the keen interest observed, I am confident that we will see sizeable flow of transactions through this link.
8. Expanding the footprint of the local financial market infrastructure is a strategy actively pursued by the HKMA to develop Hong Kong into a regional payment and settlement hub. This PvP link with Thailand is the third of its kind in the region, preceded by the launch of the links with Malaysia and Indonesia, in 2006 and 2010 respectively. According to the latest triennial survey on global FX market activity of the Bank for International Settlements, the average daily turnover in FX transactions in Asia increased by 27.5% from US\$962 billion equivalent in April 2010 to US\$1,227 billion equivalent in April 2013. This is in line with the growth in the activities of the two existing cross border PvP links recorded by us. Since 2010, the combined average daily turnover of the links with Malaysia and Indonesia has doubled, reaching a new record of US\$5.4 billion last month. This is equivalent to an annual growth of about 23%. Other economies in the region, especially those with significant FX transactions, can similarly be benefited from a reduction in settlement risk and increase in efficiency in the settlement of FX transactions by establishing a PvP link with the USD RTGS system in Hong Kong.
9. The HKMA will continue to watch out for opportunities to collaborate with Asian neighbours to develop infrastructural solutions to meet growing regional demand for more efficient and robust settlement solutions.
10. Lastly, I would like to thank BOT again for the Bank's commitment and professionalism leading to the successful launch of the PvP link. Based on the solid foundation laid through this project, I keenly look forward to working with BOT in other areas of central bank cooperation to contribute further to regional financial stability and prosperity.
11. Thank you.