Press Release

LCQ13: Prevention of collusion by foreign exchange traders

Wednesday, March 26, 2014

Following is a question by the Hon Dennis Kwok and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 26):

Question:

It has been reported that in recent months, more than a dozen regulators across Europe, the United States and Asia have been either running their own inquiries or assisting investigations into allegations of foreign exchange (F/X) traders using electronic communication platforms such as chatrooms to share client information and collude to manipulate daily currency benchmarks (e.g. sharing information about overall trading books and individual client orders to match up their trades and align trading strategies). Internal investigations by some of the banks involved (many of which have businesses in Hong Kong) have also revealed such instances of illicit acts. In this connection, will the Government inform this Council whether it knows if the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC):

(1) have carried out investigations to find out whether there have been similar instances of illicit acts by traders in the Hong Kong F/X market; if so, of the findings and, if such instances have been found, the follow-up actions taken (e.g. instituting criminal prosecutions, etc.) by HKMA and SFC; if no investigation has been carried out, the reasons for that;

(2) have assessed whether the current relevant regulations are adequate to deter traders trading in the Hong Kong F/X market from engaging in similar illicit acts; if they have assessed, of the findings and, if the findings are in the negative, whether and when they will review the relevant regulations; and

(3) have assessed whether the investigations by overseas regulators have resulted in changes in the Hong Kong F/X market (e.g. shrunken F/X trading activities, investors' diminished willingness to take risk, etc.); if so and the assessment outcome is in the affirmative, of the impacts of such changes on the Hong Kong F/X market and the follow-up actions taken by HKMA and SFC; if not, the reasons for that?

Reply:

President,

The Administration has consulted HKMA and SFC in formulating the reply below, insofar as it concerns their enforcement and regulatory functions.

(1) HKMA is investigating a number of authorised institutions in Hong Kong on F/X benchmark rigging matters, and has been in close contact with overseas bank supervisors in the process. The HKMA investigations are in progress.

(2) HKMA requires authorised institutions to maintain adequate systems of control to ensure that their staff engaged in treasury market activities, including the F/X market, observe relevant high standards of ethical behaviour as set out in the Code of Conduct and Practice issued by the Treasury Markets Association (the TMA Code).

The TMA Code sets out the standards of ethical behaviour and best practices applicable to treasury markets, including the F/X market, in Hong Kong. Generally, the TMA Code provides that TMA member institutions should conduct their business in an honest and fair manner, and safeguard the integrity of the market and that fraudulent, deceptive and manipulative practices should be strictly forbidden. Moreover, the TMA Code provides that such institutions should take all necessary measures to prevent fraud and other criminal activities and take reasonable steps to ensure the execution of client orders are on the best available terms. The TMA Code further provides that market participants should exercise utmost care in observing confidentiality and preserving client anonymity, and should not divulge any information relating to the deals transacted or being transacted.

(3) As we understand from the regulators, market feedback has not suggested any unusual change in the level of market activities in the Hong Kong F/X market as a result of the F/X benchmark investigations.

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