

The Monetary Authority

Reference Manual for Government Bond Fixings

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Background

On 25 February 2009, the Financial Secretary announced in the 2009/10 Budget Speech that it was his intention to establish a programme of issuance of bonds, Government Bond Programme (“Programme”), consisting of institutional bond issuance programme and retail bond issuance programme. Government bonds (“GB”) under the Programme will be issued under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) for the purpose of promoting the further development of the Hong Kong bond market and the proceeds will be credited to the Bond Fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong) for such purpose and approved by the necessary Resolutions passed by the Legislative Council on 8 July 2009. Pursuant to Section 5 of the Loans Ordinance, any sum borrowed under that Ordinance and all interest and other charges thereon will be charged upon and shall be payable out of the general revenues and assets of Hong Kong.

The Monetary Authority (“MA”), as representative of the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (“HKSAR Government”) in the implementation of the Programme, is tasked to co-ordinate the offering of GB and to manage the sums paid out of the Bond Fund.

It is envisaged that the calculation and publication of a set of Official Fixings and Closing Reference Rates (collectively to be referred to as “fixings”) for the Programme would be beneficial to the future development of the Programme by promoting market transparency.

The MA has appointed Thomson Reuters Limited to be the calculating agent of the GB fixings (“Calculating Agent”).

Set out in this Reference Manual are the main features of the scheme for the GB fixings, the daily operational procedures and the contingency arrangements under the Programme.

Number of fixings per day

There will be one set of Official Fixings based on the market quotes for the benchmark issues as at 11:00 a.m., to be calculated and published by 11:30 a.m. on each business day, excluding the situations described under the section “Contingency arrangements for the fixings” in this Reference Manual.

One set of Closing Reference Rates quotes for the benchmark issues as at 4:00 p.m. will also be calculated and published by 4:30 p.m., following the same procedures and methodologies as those employed for the Official Fixings.

In this Reference Manual, a “business day” means a day that is not a Saturday, Sunday or a general holiday in Hong Kong. All of the times specified in this Reference Manual refers to Hong Kong time.

Benchmark tenors for the fixings

2-year, 3-year, 5-year and 10-year GB, but other tenors may be specified by the MA from time to time.

Selection and announcement of benchmark issues to be fixed

Specific GB issues will be selected to represent the benchmark tenors from time to time. The benchmark for the GB will be switched following the tender of 2-, 3-, 5- or 10-year GB. The specified GB tendered will commence to serve as the benchmark for the Closing Reference Rates on its tender date and as the benchmark for the Official Fixings on its issue date.

The MA will update the set of benchmark issues to be used for the Official Fixings and for the Closing Reference Rates at 9:00 a.m. on the relevant fixings pages described under the section “Availability of the fixing information” in this Reference Manual. Any change to the existing benchmark issues will be announced at least four business days in advance.

Fixing basis

GB are fixed on a mid-price basis. The Calculating Agent will calculate and publish the corresponding annualised yield-to-maturity based on the respective price fixings.

Schedule for input of quotes and publication of the fixings

The Primary Dealers appointed by the MA will input their quotes for the individual benchmark GB issues through the channels pre-arranged with the Calculating Agent within the specific time periods during a business day for computing the fixings. The yields or prices submitted by the Primary Dealers should be the market rates as at 11:00 a.m. and 4:00 p.m. on each business day for the Official Fixings and the Closing Reference Rates, respectively.

For the Official Fixings, the Primary Dealers will input their quotes before 11:15 a.m. and the Official Fixings will be calculated and published by 11:30 a.m..

For the Closing Reference Rates, the Primary Dealers will input their quotes before 4:15 p.m. and the Closing Reference Rates will be calculated and published by 4:30 p.m..

Surveillance of the fixings by the MA

The Primary Dealers are free to contribute their quotes for the fixings according to their respective perceptions of the prevailing market yield or price of the benchmark GB issues. Nevertheless, to make the fixings less vulnerable to apparent errors or biases, the MA will monitor the quotes contributed by the Primary Dealers before the fixings are calculated and published.

As individual Primary Dealers begin to contribute their quotes for the fixings, their quotes will correspondingly be made visible at the Calculating Agent's terminal located at the Monetary Authority. If the MA detects any apparent error or bias in the quotes e.g., apparently incorrect, large or unusual figures, the MA will immediately notify the Calculating Agent to remind the relevant Primary Dealers to review the accuracy of their quotes. Nevertheless, the Primary Dealers concerned will not be obliged to revise their quotes if they consider their quotes to be appropriate. The MA will regularly review with the Calculating Agent the quality of the quotes contributed by the Primary Dealers to identify whether any Primary Dealer consistently submits off-market quotes, and will discuss such situations with the Primary Dealers concerned.

In the event of an error attributable to a Primary Dealer, that Primary Dealer shall be given one hour following the actual publication time to correct the error, in which case the Calculating Agent will re-calculate the Official Fixings and/or the Closing Reference Rates and publish the amended Official Fixings and/or the Closing Reference Rates as soon as practicable.

In the event of an error attributable to the calculation provided by the Calculating Agent, the Calculating Agent shall correct, within one hour following the actual publication time, the error by re-calculating the Official Fixings and/or the Closing Reference Rates and publishing the amended Official Fixings and/or the Closing Reference Rates. In the event that the Calculating Agent only becomes aware of such error attributable to the calculation provided by it after one hour following the actual publication time, the Calculating Agent shall re-calculate the Official Fixings and/or the Closing Reference Rates and publish the amended Official Fixings and/or the Closing Reference Rates forthwith.

Formula for calculation of the fixings***Up until 8 June 2012***

Unless otherwise determined by the MA (in exceptional circumstances), the fixings for each of the benchmark issues is derived as the arithmetic mean of the middle eight quotes from the Primary Dealers, after excluding the two highest and the two lowest quotes.

The price fixings for the benchmark GB calculated will be rounded up to two decimal places. The yield for the benchmark GB to be derived from a particular rounded price fixings will be rounded up to three decimal places.

After a requisite number of the Primary Dealers (to be determined by the MA from time to time) have submitted their quotes for the benchmark GB issues, the Official Fixings will be calculated and published by 11:30 a.m. whereas the Closing Reference Rates will be published by 4:30 p.m..

From 11 June 2012

Unless otherwise determined by the MA (in exceptional circumstances), the fixings for each of the benchmark issues is derived as the arithmetic mean of the middle eight quotes from the Primary Dealers, after excluding the highest and the two lowest quotes.

The price fixings for the benchmark GB calculated will be rounded up to two decimal places. The yield for the benchmark GB to be derived from a particular rounded price fixings will be rounded up to three decimal places.

After a requisite number of the Primary Dealers (to be determined by the MA from time to time) have submitted their quotes for the benchmark GB issues, the Official Fixings will be calculated and published by 11:30 a.m. whereas the Closing Reference Rates will be published by 4:30 p.m..

Indicative price and yield of off-the-run GB issues

Until 31 August 2011, based on the yields of the GB derived from the price fixings of the benchmark GB, the Calculating Agent will calculate and publish indicative mid-price for the off-the-run GB by way of linear interpolation. The interpolated yield for the off-the-run GB will, in turn, be used for calculating the price of the respective GB.

From 1 September 2011 onwards, the Calculating Agent will calculate and publish indicative mid-price for the off-the-run GB using contributions from the Primary Dealers. The same methodology used in calculating the fixings for the benchmark issues will be used by the Calculating Agent.

Contingency arrangements for the fixings

Typhoon and rainstorm procedures

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is not lowered at or before 12:00 noon, there will be no Official Fixings or Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is lowered at or before 12:00 noon, the publication of the Official Fixings will be postponed to 2:30 p.m. on that day. The Closing Reference Rates will be calculated and published as usual at 4:30 p.m..

If a No.8 typhoon signal or higher is hoisted at or before 11:00 a.m. on a business day and is lowered at or before 12:00 noon on that day but is subsequently hoisted again before 2:30 p.m., there will be no Official Fixings or Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted after 11:00 a.m. on a business day (by which time the Official Fixings will have been calculated) and is not lowered at or before 12:00 noon, there will be no Closing Reference Rates for that day.

If a No.8 typhoon signal or higher is hoisted after 11:00 a.m. on a business day (by which time the Official Fixings will have been calculated) and is lowered at or before 12:00 noon, the Closing Reference Rates will be calculated and published as usual at 4:30 p.m..

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is not withdrawn at or before 12:00 noon, there will be no Official Fixings or Closing Reference Rates for that day.

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is withdrawn at or before 12:00 noon, the Official Fixings will be postponed to 2:30 p.m. on that day. The Closing Reference Rates will be calculated and published as usual at 4:30 p.m..

If a black rainstorm warning is issued at or before 9:00 a.m. on a business day and is withdrawn at or before 12:00 noon but a No.8 typhoon signal is hoisted before 2:30 p.m., there will be no Official Fixings or Closing Reference Rates for that day.

For ease of reference, the contingency arrangements under the different typhoon and black rainstorm scenarios are summarised in the table below:-

Possible combinations of No.8 ¹ Typhoon Signal and Black Rainstorm Warning		Black Rainstorm Warning		
		Not issued <u>OR</u> issued after 9:00 a.m.	Issued at or before 9:00 a.m. and withdrawn at or before 12:00 noon	Issued at or before 9:00 a.m. and not withdrawn at or before 12:00 noon
No.8 ¹ Typhoon Signal	Not hoisted	Official Fixings and Closing Reference Rates to be fixed at 11:30 a.m. and 4:30 p.m. respectively	Official Fixings postponed to 2:30 p.m.; Closing Reference Rates to be fixed at 4:30 p.m.	No Official Fixings or Closing Reference Rates
	Hoisted at or before 11:00 a.m. and lowered ² at or before 12:00 noon	Official Fixings postponed to 2:30 p.m.; Closing Reference Rates to be fixed at 4:30 p.m.	Official Fixings postponed to 2:30 p.m.; Closing Reference Rates to be fixed at 4:30 p.m.	
	Hoisted at or before 11:00 a.m. and not lowered ² at or before 12:00 noon	No Official Fixings or Closing Reference Rates	No Official Fixings or Closing Reference Rates	
	Hoisted at or before 11:00 a.m. and lowered ² at or before 12:00 noon, but hoisted again before 2:30 p.m.	No Official Fixings or Closing Reference Rates	No Official Fixings or Closing Reference Rates	
	Hoisted after 11:00 a.m. and lowered ² at or before 12:00 noon	Official Fixings already fixed at 11:30 a.m.; Closing Reference Rates to be fixed at 4:30 p.m.	Official Fixings postponed to 2:30 p.m.; Closing Reference Rates to be fixed at 4:30 p.m.	
	Hoisted after 11:00 a.m. and not lowered at or before 12:00 noon	Official Fixings already fixed at 11:30 a.m.; No Closing Reference Rates	No Official Fixings or Closing Reference Rates	

Note 1: Or a higher number signal.

Note 2: To a typhoon signal below No.8.

Missing quotes from Primary Dealers

The Calculating Agent will consult the MA as to whether it is to proceed with the calculation of the fixings for a particular business day if the number of quotes for an individual benchmark issue falls short of the required number when the fixings are to be calculated and published. To ensure that the availability of the fixings will not be easily jeopardised by missing quotes from the Primary Dealers and that the fixings calculated are of reasonable quality, the Calculating Agent will proceed to calculate the fixings if the number of quotes is not less than ten. In the event that only eleven quotes are available, the lowest two and the highest quotes will be excluded. In the event that only ten quotes are available, the lowest and the highest quotes will be excluded.

Submission channel failure

In the event that the pre-arranged submission channel for a Primary Dealer breaks down due to equipment or system failure, the Calculating Agent may accept quotes from the Primary Dealers by way of facsimile or electronic mail. The Calculating Agent will input the quotes into the system on behalf of the Primary Dealer to ensure that the fixings process can proceed smoothly.

Availability of the fixing information**Fixing information on business days**

The table below shows the availability of the information regarding the fixings on each business day:

	Official Fixings at 11:30 a.m.	Closing Reference Rates at 4:30 p.m.	GB off-the-run issues		Advance notice for switching of benchmarks
			At around 11:35 a.m.	At around 4:35 p.m.	
Bloomberg	GBHK <GO>				
Thomson Reuters	0#HKGB MIDFBM K=	0#HKGBE ODFBMK=	0#HKGB=MFIX	0#HKGB=CFIX	HKGB005
Programme Website	http://www.hkgb.gov.hk				

Disclaimer and use of the fixing information

While the HKSAR Government endeavours to provide a continuous and timely service, and to ensure the accuracy of the information contained in this website, it is entitled to delete, suspend or edit any of the materials at its absolute discretion without giving any reason and/or prior notice and it shall not be liable for any claim, loss or damage (including but not limited to economic, consequential and indirect loss) caused by, arising from or in connection with (i) the use of any information in this website; and (ii) any disruption in the service or late availability of the reference yield and price figures or any other information.

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By reviewing or downloading any reference yield or price figure or any other information provided in this website, you accept this disclaimer and agree to its terms and conditions.

When using the Official Fixings and the Closing Reference Rates, the users are requested to refer to such data as “Hong Kong Government Bond Official Fixings” or “HKGB Fixings” and “Hong Kong Government Bond Closing Reference Rates” or “HKGB Closings” respectively, and to quote the Hong Kong SAR Government as the owner of the Official Fixings and the Closing Reference Rates, and all of the intellectual property rights in and to the same.