South China Morning Post 南華早報

Hong Kong banks must get their own house in order

Wednesday, 09 April, 2014, 6:26pm
Comment

Anthony Murphy

Anthony Murphy expects intense regulatory scrutiny over forex trading

The Hong Kong Monetary Authority confirmed last week that it has joined its global counterparts in investigating the conduct of banks in foreign exchange markets. This announcement should not come as a surprise, as the HKMA regularly collaborates and shares information with overseas regulators.

Global banks are already drawing on lessons learned from recent investigations into the setting of interbank interest rates such as the London interbank offered rate, or Libor, which saw over US$6 billion in fines levied globally and left many traders without jobs and some facing criminal indictments.

Many institutions have already launched far-reaching internal investigations into their forex practices and have, in some cases, suspended traders, including staff in Asia.

Like their counterparts in Singapore and Tokyo, the Hong Kong financial industry was subject to intense regulatory scrutiny in the setting of the local interbank rates.

Last June, Singapore authorities disciplined 20 banks for manipulating the setting of the Singapore interbank rate, while in 2011, Japanese regulators accused traders at two large foreign institutions of manipulating the Tokyo interbank rate.

Last month, after an exhaustive review, the HKMA announced the outcome of its investigation, finding evidence of misconduct in submissions for the Hong Kong interbank offered rate (Hibor) by one bank, but no evidence of collusion between banks to rig the Hibor fixing. HKMA has also endorsed a much more rigorous code of conduct for the Hibor.

With an average of
more than US$275 billion passing through Hong Kong's forex trading desks every day, the financial industry is steeling itself for further regulatory scrutiny.

The large forex hubs of London and New York have already attracted regulatory scrutiny. Local regulators throughout Asia are now turning their focus to the conduct of forex business; local bank boards are closely examining the activities on their trading floors.

Forex desks are perhaps one of the few common features to be found inside both large multinational institutions and family-run banks in Hong Kong. While no excuse can be made

for fraudulent or manipulative behaviour, extreme competition for business and low margins can place pressure on traders to sail close to the wind in their market conduct.

The explosive uptake of personal electronic devices, instant messaging services and social media poses a big challenge for bank management to properly monitor traders for potential collusive activity.

Whether or not Hong Kong will see the same level of regulatory crackdown as overseas, banks both big and small should prepare for the litigation, monetary and reputational risks they face.

First, they should review all internal records for evidence of price fixing and disclose any questionable activity to their boards and regulatory agencies.

Second, banks need to thoroughly review their governance frameworks in order to identify and fill gaps in their forex compliance and control systems.

Third, they should learn to communicate more effectively with regulators and stakeholders, including the media and shareholders.

There is also room for regulators around the world to better co-ordinate and standardise rules governing the US$5.3 trillion-a-day global forex industry, one which touches the lives of almost everyone.

But, at the end of the day, it will be the responsibility of banks to find a way to restore public faith in capitalist-driven markets if the HKMA investigation reveals a breach of trust. An overhaul and improvement of their internal practices is one place they can start.

Anthony Murphy is a managing director at Promontory Financial Group

---

Source URL (retrieved on *Apr 9th 2014, 8:58pm*):
http://www.scmp.com/comment/article/1471230/hong-kong-banks-must-get-their-own-house-order