

Markit Consultation on HSBC FX Indices and data substitution

19 July 2016

1. Markit's Administration

Markit is the sole Administrator of a number of HSBC Indices and is the process of transferring the Administration of a number of additional HSBC Indices to Markit. The list of HSBC Indices currently administered by Markit can be found [here](#).

All capitalised terms in this document shall have the meaning ascribed to them in the International Organisation of Securities Commissions Principles for Financial Benchmarks (the "IOSCO Principles") unless stated otherwise.

2. Proposal for data substitution from FX Broker quotes to WM rates

A number of HSBC Indices (the "FX Indices", see Appendix A for detailed information on the FX Indices) rely on broker quotes (the "FX Broker Data") in the calculation of the index level. Markit has not yet formally assumed the role of Administrator for the FX Indices but Markit is considering substituting the FX Broker Data with benchmark data from WM/Reuters ("WM Rates"). This would, in Markit's opinion, enhance the reliability, transparency and representativeness of the FX Indices and mitigate many of the risks which may arise when relying on FX Broker Data. The timetable Markit is suggesting is as follows –

- 19th July – Consultation opens
- 15th August – Consultation closes
- 22nd August – Markit becomes the administrator of the FX Indices
- By end of October – All FX Broker Data substituted with WM Rates

3. Analysis and conclusion

Markit's proposal is supported by the results of analysis of the Smart FX EMEA Index and the 6 constituent Single Currency Indices over a period of 12 months (January 2015 – January 2016). The detail of this analysis is contained in Appendix A.

Markit's conclusion is that the overall differences in the index levels during that period would not have been material if WM Rates had been used instead of FX Broker Data.

4. Consultation process

The participation of Stakeholders in this consultation is important as Markit seeks to gather views on the proposals herein and the suggested timetable for implementation of those proposals. Markit may publish summaries of Stakeholders' comments along with Markit's responses to those comments unless the Stakeholder in question expressly requests confidentiality.

To participate in this consultation please respond to Markit Index Administration Services at MK-IndexAdminConsultation@markit.com.

Please be advised that all comments will be reviewed and considered before a final decision is made; however, Markit makes no guarantee and is under no obligation to comply with any of the responses. The consultation may result in no changes or outcome of any kind. If Markit decides to change the index methodology, an announcement will be posted on our website. Markit reserves the right to make a final decision on the proposal, and this will be ratified by the Index Administrator Committee and, if appropriate, Markit's Benchmark Oversight Committee.

5. Key Questions

1. Do you agree with the proposal to substitute FX Broker Data with WM Rates?
2. Do you object to the proposed timetable for the substitution to be implemented?

Appendix A – Data substitution for the FX Indices

Scope

On the 22nd August Markit intends to take over administration of the following HSBC Indices:

Family	Asset Class	Number of Indices
Algorithmic FX	FX	5
Dynamic FX	FX	2
Single CCY	FX	144
Smart	FX	15

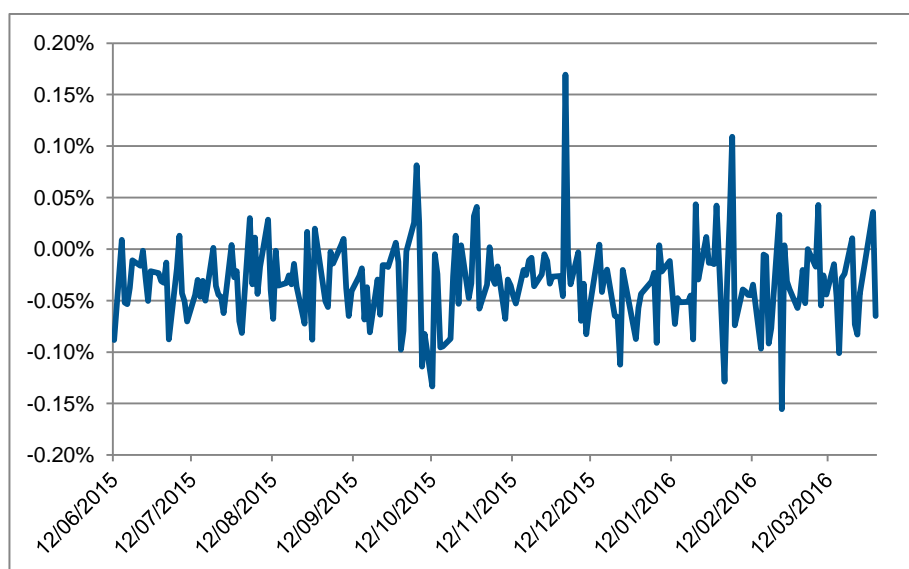
Analysis

HSBC SMART FX EMEA Index

The **HSBC SMART FX EMEA Index** is comprised of the following single currency indices:

HSBC Single Currency ZAR Index
 HSBC Single Currency ILS Index
 HSBC Single Currency RUB index
 HSBC Single Currency PLN Index
 HSBC Single Currency HUF Index
 HSBC Single Currency TRY Index

The below chart displays the percentage difference in SMART FX EMEA Index levels as a result of the data substitutions in the single currency indices

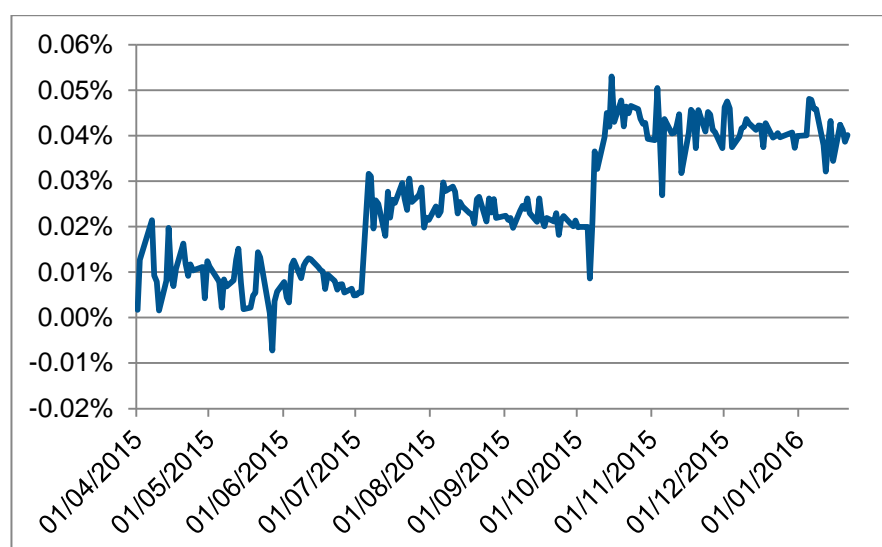


Key Statistics

Stats	Original	Revised	Differences
Mean			-0.0320%
Median			-0.0328%
Standard Deviation	2.74515746	2.74608642	0.0397%
Min	72.0694403	72.1327086	-0.1555%
Max	84.4793679	84.4886258	0.1695%

HSBC Single Currency ZAR Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index.

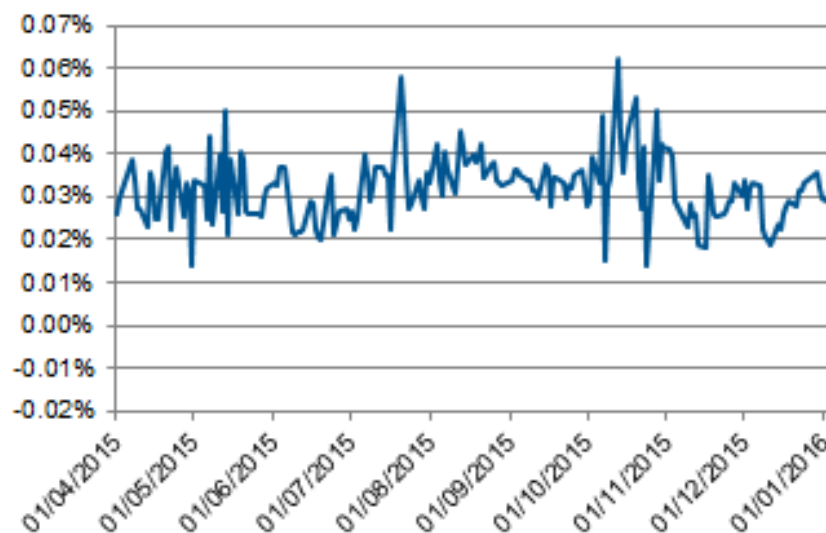


Key Statistics

Stats	Original	Revised	Differences
Mean			0.0253%
Median			0.0236%
Standard Deviation	5.116613255	5.12290157	0.0143%
Min	52.852241	52.830795	-0.0072%
Max	71.465912	71.460982	0.0530%

HSBC Single Currency ILS Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index.

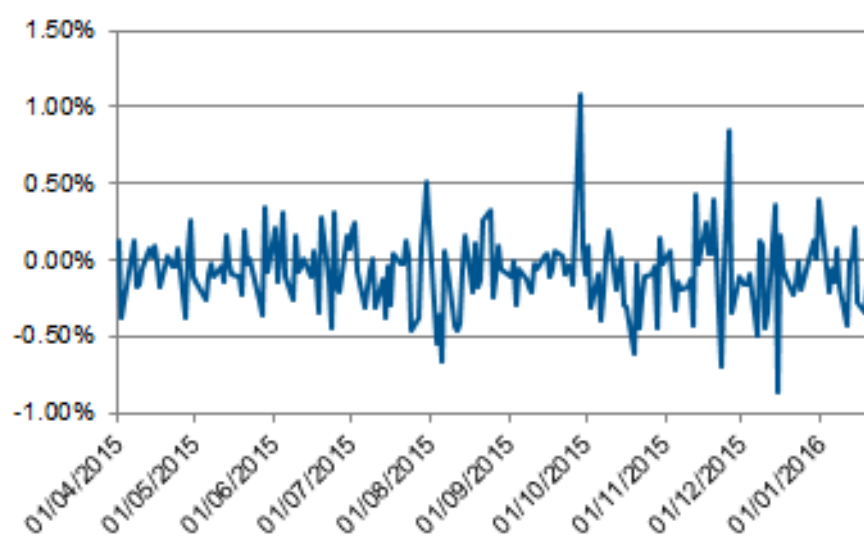


Key Statistics

Stats	Original	Revised	Differences
mean			0.0305%
median			0.0317%
Standard Deviation	1.44346142	1.4433328	0.0100%
Min	91.691916	91.668045	-0.0117%
Max	97.780384	97.748406	0.0620%

HSBC Single Currency RUB Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index

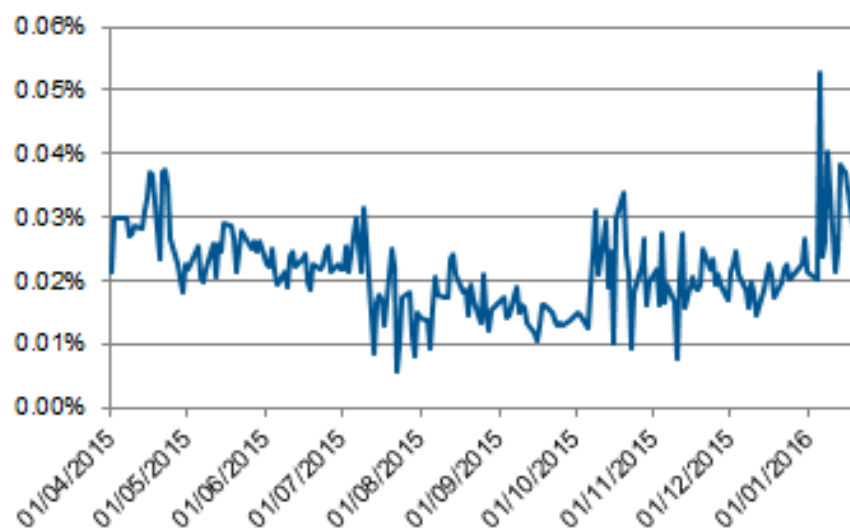


Key Statistics

Stats	Original	Revised	Differences
mean			-0.0690%
median			-0.0644%
Standard Deviation	5.5757883	5.57490129	0.2427%
Min	52.46802	52.696929	-0.8561%
Max	78.539316	78.668585	0.0108%

HSBC Single Currency PLN Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index.

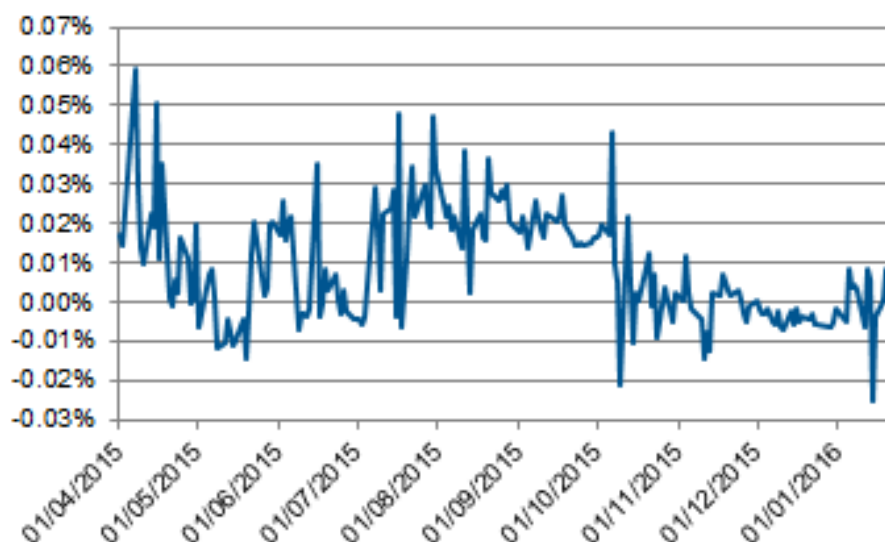


Key Statistics

Stats	Original	Revised	Differences
mean			0.0214%
median			0.0212%
Standard Deviation	2.621637714	2.619077874	0.0068%
Min	82.792065	82.775021	0.0058%
Max	93.492968	93.47464	0.0528%

HSBC Single Currency HUF Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index

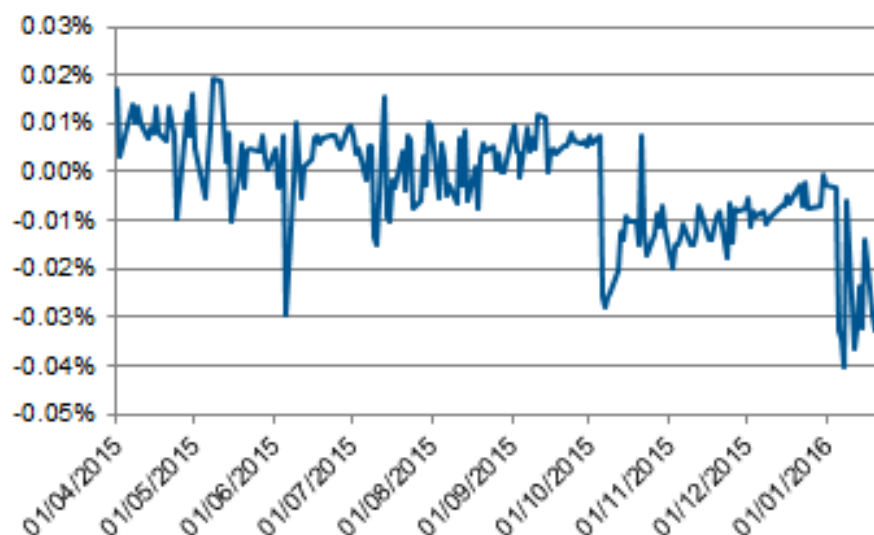


Key Statistics

Stats	Original	Revised	Differences
mean			0.0089%
median			0.0058%
Standard Deviation	1.750599957	1.74965871	0.0142%
Min	80.250678	80.234715	-0.0254%
Max	87.60099	87.601472	0.0594%

HSBC Single Currency TRY Index

The below chart displays the difference in percentage of the index levels as a result of the data substitutions in the single currency index



Key Statistics

Stats	Original	Revised	Differences
mean			-0.0026%
median			-0.0004%
Standard Deviation	2.240159704	2.240910389	0.0118%
Min	66.59264	66.589064	-0.0400%
Max	76.492898	76.517025	0.0191%