



**The Depository Trust &
Clearing Corporation**
55 Water Street
New York, NY 10041-0099

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Submitted via email to mdd@hkma.gov.hk and otcconsult@sfc.hk

Market Development Division
Hong Kong Monetary Authority
55th Floor Two International Finance Centre
8 Finance Street Central
Hong Kong

Supervision of Markets Division
Securities and Futures Commission
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Re: Consultation paper on the proposed regulatory regime for the over-the-counter derivatives market in Hong Kong

Ladies and Gentlemen,

The Depository Trust & Clearing Corporation (“DTCC”) appreciates the opportunity to provide comments to the Hong Kong Monetary Authority (“HKMA”) and the Securities and Futures Commission (together the “Commissions”) in connection with the consultation paper on the proposed regulatory regime for the over-the-counter derivatives market in Hong Kong (the “Consultation Paper”) published by the Commissions. DTCC’s comments are provided with the goal of assisting the Commissions in determining how best to provide increased transparency and oversight to the over-the-counter (“OTC”) derivatives market.

Overview of DTCC’s Global Trade Repository Service

DTCC currently operates two subsidiaries specifically responsible for providing repository services to the global derivatives community: The Warehouse Trust Company LLC operated by Trade Information Warehouse (“TIW”) for credit derivatives, a U.S. regulated entity; and DTCC Derivatives Repository Limited (“DDRL”) for equity derivatives, a U.K. regulated entity. In response to the G20 commitments made at the September 2009 Pittsburg Summit, the Financial Stability Board (“FSB”) Report on OTC Derivatives Market Reform, and forthcoming statutory legislation in various jurisdictions, the international dealer community selected DTCC’s DDRL entity to provide global repository services for Interest Rates and FX swaps. DTCC was also

selected to operate the Commodities repository (as a joint venture with the European Federation of Energy Traders) under its newly established Netherlands entity, Global Trade Repository for Commodities B.V.

DTCC is working closely with relevant partners and asset class experts to design repositories to meet the regulatory reporting requirements identified in the respective regional or national jurisdictions. DTCC has completed its first phase deliverable of the Global Trade Repository for Interest Rates (“GTR for Rates”), now in live service. Regulatory reporting is expected to commence in February 2012, replacing the current TriOptima repository reporting. In this phase, global dealers will be submitting transaction data to the DTCC GTR for Rates utilizing MarkitSERV’s confirmation matching service. Message specifications have been shared with HKMA to ensure data fields meet the reporting requirement of the Hong Kong Trade Repository (“HKTR”) and a common data standard approach is adopted. Subsequent phases will include connectivity to other service providers and direct submissions to DTCC GTR for Rates; for example, for single-sided paper-based confirm reporting. DTCC also continues to work with the other asset classes to define implementation plans and expand existing functionality. It is anticipated that all trade repositories will be operationally ready to receive transaction data for testing purposes by March 2012, in advance of HKMA’s testing cycle.

Importantly, DTCC has experience operating as a trade repository and meeting reporting needs. Since November 2008, in response to mounting concerns and speculation regarding the size of the credit default swaps (“CDS”) market following the collapse of Lehman, DTCC began public aggregate reporting of the CDS open position inventory. Today, this includes open positions and volume turnover, which has proved extremely beneficial to the public and regulators in understanding the size of the market and activity. Additionally, since March 2010, DTCC has been responding to regulatory requests for data, complying with over 100 ad-hoc data requests. Further, pursuant to the OTC Derivatives Regulators Forum (“ODRF”) data access guidelines for the TIW, DTCC launched a regulatory portal in January 2011, which provides market and prudential supervisors with automated counterparty exposure reports and query capability for transaction data and central banks with aggregate report views by currency and concentration. Nearly 40 regulators world-wide have signed up to the portal. DTCC plans to expand on this portal as it launches its global trade repository services for the other asset classes.

Importance of Global Repositories

DTCC believes that a global trade repository system will play a fundamental role in promoting more transparent markets for global regulatory oversight and systemic risk mitigation. It is critical that regulators worldwide be able to access core infrastructure and consolidated asset class databases to protect against systemic risk. Consistent rules between jurisdictions is critical to ensuring that consolidated asset class data remains readily available for regulators and provides the information needed to make decisions about future entities acquiring positions that are systemically risky. Equally as important, these rules must be implemented so as to ensure a consistent implementation time frame

among jurisdictions, preventing potential arbitrage in inconsistent application of repository rules.

It is an absolute necessity that the U.S., the European Union, Asia and other major global markets align their regulatory regimes to limit arbitrage opportunities that distort markets. DTCC urges global supervisors in their regulation of trade repositories to aim for regulatory comity as has already been achieved by the Over-the-Counter Derivatives Regulators Forum ("ODRF") and as may be further agreed to by other international bodies, such as the Committee on Payment and Settlement Systems ("CPSS") and the International Organization of Securities Commission ("IOSCO").

International coordination and cooperation is critical to achieving the level of transparency necessary to mitigate systemic risk in swaps markets. DTCC urges legislators and regulators to focus on the use of consolidated repositories, or single repositories by asset class, to counter the risk of data fragmentation. As the system for the use of repositories is developed internationally, regulators must have equal ability to obtain information directly relating to their regulatory responsibility, quickly and without restriction.

Comments on Consult Paper

DTCC respects the Commissions' plans to move forward with the build of a local trade repository and commends the Commissions' recognition of a global trade repository operating as an agent for dealers and other reporting parties. It is clear, however, that most users are interested in avoiding the development and maintenance of multiple interfaces in instances of multiple jurisdictional reporting obligations for one trade. DTCC encourages HKMA to work with such agents on reconciliation protocols to allow a single report by the reporting party for all jurisdictions.

In addition, reciprocally providing the global trade repository any data reported directly to the HKTR will ensure that foreign regulators have direct access to Hong Kong data in a manner combined and consistent with other data, thereby ensuring full reciprocal access to offshore data impacting domestic markets. This will promote high quality public data, avoiding unclear duplication or omission and promoting accurate derivation of key market statistics, such as net open interest in an instrument.

It is critical that appropriate controls are in place to ensure accurate data inventory. For example, there is a risk that duplicate reporting can arise where both firms are required to report and trades may be reported to the HKTR from different submissions (*e.g.*, confirm platforms, global trade repositories, or directly). The Commissions should implement clear rules to ensure trades are only reported once and firms are not overburdened with reporting the trade multiple times.

Further, DTCC strongly recommends that the Commissions recognize the matched record designation held in the global trade repository and discourage duplicate reporting to HKTR directly where the trade has already been submitted as a matched trade. Additional matching of an HKTR trade that has already been matched by another

provider will create undue burden to the other reporting firm, as well as reconciliation issues with existing systems. At a minimum, the Commissions should require that any direct reporting to the HKTR includes the unique swap identifier (“USI”), which global market participants will be required to communicate at time of trade execution to their counterparties. U.S. regulations require the USI to be captured on each transaction record, ensuring data inventory control of each record. If the HKTR receives a record directly to its repository with a USI that already exists in its inventory with a matched status, the firm should be made to correct such record in the source matching system. Adopting the USI will help ensure that records sent to the global trade repository are not duplicate reported.

Another important aspect of two-way communication with the global trade repository is use of the global legal entity identifier (“LEI”). We commend the Commissions’ support of developments for an LEI and plans to factor it into the HKTR. We encourage the Commissions to require LEI registration for entities trading in Hong Kong in the final rules for the OTC derivatives market. Momentum is gaining for adoption and implementation of a universal LEI to address the need for more comprehensive monitoring of systemic risk. Key international regulatory bodies, such as the FSB and the G20, are engaged with the industry on implementing a global solution. Early work is well underway to enable LEIs to be issued to OTC derivative counterparties in advance of the planned effective date for mandatory reporting in Hong Kong.

DTCC encourages the Commissions to engage in the FSB-sponsored regulatory consensus building on LEI, while continuing to closely monitor progress of the LEI implementation. Incorporating the LEI registration approach into Hong Kong’s rules will encourage further momentum in Asia.

Conclusion

Thank you for the opportunity to comment on the Consultation Paper and the continued dialogue with the Commissions on the development of an appropriate regulatory structure for Hong Kong’s trade repository. Should you wish to discuss these comments further, please do not hesitate to contact

Sincerely yours,