

5 Dec 2011

Dear Sir/Madam,

Consultation paper on the proposed regulatory regime for the over-the-counter (“OTC”) derivatives market in Hong Kong

We have reviewed the consultation paper issued by HKMA/SFC on October 2011 on the proposed regulatory regime for the OTC derivatives market in Hong Kong. We have also participated in the workshop held by ISDA to discuss on the subject with other banks. After internal discussions within our bank, we set out below our comments to the questions raised in the consultation paper.

Unless otherwise defined herein, capitalised terms used herein shall have the same meanings as ascribed thereto in the consultation paper.

1. Do you have any comments on the proposed scope of the regulatory regime for the OTC derivatives market in Hong Kong and how it is proposed to be set out?

DBS response: On the definition of the “OTC derivatives transaction”, the reference to ‘structured products’ might not be appropriate as it is not the intention to include customized products which are not standardized and liquid for purposes of mandatory reporting and clearing.

On the eligible transactions for mandatory clearing, we understand different requirements apply to locally incorporated AIs and overseas-incorporated AIs. However in both cases, the requirements will apply not only to the respective AI as a counterparty to the transaction but also to the AI which has originated or executed the transaction. There are several areas which we believe should be considered in greater details:

- (a) input and/or agreement may be required from the overseas regulator to address any banking secrecy or customer confidentiality issues
- (b) the timeliness of such reporting might be affected given that transactions may be booked in locations outside of Hong Kong
- (c) there may be potential overlap with the requirements imposed by the regulators of the overseas booking locations.

We appreciate the rationale as explained in paragraphs 65 and 66 on the mandatory reporting of those transactions to HKMA-TR.

2. Do you have any comments on the proposed division of regulatory responsibility between the HKMA and SFC?

DBS response: We do not have any comments on this.

- 3. Do you have any comments on the proposal to take a phased approach to extending any mandatory reporting and clearing obligations?**

DBS response: We welcome the phased approach as it allows sufficient time for AIs to establish the infrastructure to support the new product types and necessary requirements.

- 4. Do you have any comments on the proposal to initially limit the scope of any mandatory reporting and clearing obligations so that they apply in respect of certain IRS and NDF?**

DBS response: The initial scope of reportable and clearing eligible transactions includes IRS and NDF. We understand that the details of the types of IRS and NDF to be involved in the scope of mandatory clearing will be provided in the subsidiary legislation in due course.

- 5. Do you have any comments on the proposed mandatory reporting obligation, and how it will apply to different persons?**

DBS response: While we do not envisage major issues to report those information required in the consultation paper for IRSNDF, below are certain areas which will need to be considered in more details:

- data confidentiality;
- the inclusion of more exotic, structured or bespoke products, which may raise issues in the reporting process; and
- frequency and timing of reporting (which will be demanding on the bank's resources if real time reporting is required)

In respect of NDF transactions, we are currently in the process of reviewing our infrastructure. Whether we will engage an agent to report NDF transactions will be dependent on the outcome of our review.

- 6. Do you have any comments on the proposal to adopt a specified reporting threshold for persons other than AIs and LCs, and how the threshold will apply?**

DBS response: We do not have any comments on this.

- 7. Do you have any comments on the proposed grace periods (for TR) and how they will apply?**

DBS response: We agree a grace period should be allowed. For our banks (i.e. DBS Bank (Hong Kong) Limited, and DBS Bank Limited, Hong Kong Branch), we will need at least three months to set up the reporting channel to HKMA-TR.

- 8. Do you have any comments on the proposed mandatory clearing obligation, and how it will apply to different persons?**

DBS response: We understand and appreciate the regulators' proposal of mandatory clearing obligation which aims to mitigate systemic risk of the OTC derivatives market in Hong Kong. Our concern is, in situation where our banks have no common CCP with our counterparties for certain product types, we will not be able to centrally clear the transactions. We therefore believe exemption shall be granted in such exceptional situation, unless there is interoperability among CCPs as proposed.

9. Do you have any comments on the proposal to adopt a specified clearing threshold, and how the threshold will apply?

DBS response: We welcome adopting such clearing threshold which will alleviate unnecessary administrative burden on HK AIs if the OTC derivatives operation is not significant.

10. Do you have any comments on the proposed grace periods (for mandatory clearing obligation) and how they will apply?

DBS response: We agree a grace period should be allowed. For our banks, we will need at least six months to set up the necessary systems infrastructure and clearing relationship with designated CCP.

11. Do you have any comments on the proposal not to impose a mandatory trading obligation at the outset?

DBS response: We welcome the proposal not to impose any mandatory trading obligation at the outset given that the global requirements in relation to CCP are still evolving.

12. Do you have any comments on any aspect of our proposals for the designation and regulation of CCPs?

DBS response: We do not have any comments on this.

13. Do you have any comments on the proposed regulation of intermediaries in the OTC derivatives market?

DBS response: We do not have any comments on this.

14. Do you have any comments on the proposed regulatory oversight of large players?

DBS response: We do not have any comments on this.



DBS Bank appreciates the opportunity to provide comments and looks forward to participate in the development on this subject matter. If you have any questions, please do not hesitate to contact

Yours sincerely,

DBS Bank Limited, Hong Kong Branch