



香港場外結算有限公司  
(香港交易及結算所有限公司附屬公司)  
**OTC Clearing Hong Kong Limited**  
(A subsidiary of Hong Kong Exchanges and Clearing Limited)

18 August 2014

Supervision of Markets Division  
The Securities and Futures Commission  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Attention:

Dear

**RE: Consultation Paper on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules (the “Consultation Paper”)**

OTC Clearing Hong Kong Limited (“**OTC Clear**”) welcomes the opportunity to set out our views on the Consultation Paper, which was jointly released by the Hong Kong Monetary Authority (“**HKMA**”) and the Securities and Futures Commission (“**SFC**”) on 18 July 2014.

OTC Clear was licensed by the SFC, under Section 37(1) of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“**SFO**”) as a recognised clearing house (“**RCH**”) in October 2013 and commenced operations in November 2013, initially for the purpose of clearing certain interest rate swap agreements (“**IRS**”) and non-deliverable forward contracts (“**NDF**”). OTC Clear supports the ongoing efforts of HKMA and the SFC to develop a regulatory regime for the over-the-counter (“**OTC**”) derivatives market in Hong Kong, and remains committed to working with both bodies to achieve the goal of reducing systemic risk and ultimately enhancing the safety of the Hong Kong financial markets.

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Hong Kong Exchanges and Clearing Limited

In considering and responding to this Consultation Paper, we note that the obligation for central counterparty (“CCP”) to report is a new proposal. Subject to clarification on elements of the reporting obligation that we have raised in our comments, OTC Clear will be able to fulfil the proposed reporting requirements for CCPs in the timescales proposed.

OTC Clear is prepared to work with the various parties involved to ensure that any CCP-related reporting processes are as effective and efficient as possible.

In our response to the Consultation Paper we have only addressed or responded to those questions which we feel either directly or indirectly impact the operation of OTC Clear. Our comments below thus relate to 8 of the 30 questions posed in the Consultation Paper as noted in the Appendix.

OTC Clear appreciates having the opportunity to provide our comments on the Consultation Paper. Please do not hesitate to contact [redacted] with any questions on this submission.

Yours faithfully  
For and on behalf of  
OTC Clearing Hong Kong Limited

**Responses to Specific Questions Raised in the Consultation Paper****Q1. Do you have any comments or concerns about the proposed definition of “Hong Kong person”, “RCH” and “ATS-CCP”?**

OTC Clear has no comment on the proposed definition of “RCH”.

**Q2. Do you have any comments or concerns about the proposed types of IRS and NDF that will be subject to the mandatory reporting obligation in the initial phase of implementation?**

OTC Clear supports the implementation of the mandatory reporting obligation in phases to allow market participants to become familiar with their obligations. Our expectation is that once initial reporting interfaces and processes have been established, the reporting of subsequent product types should become easier for all impacted persons.

We note that reporting and clearing obligations are closely connected and should ideally complement each other. To this end the mandatory reporting obligation should aim to provide regulators with the transparency required to allow them to identify and assess risks and thus needs to be forward-looking and wider in scope than the eventual mandatory clearing obligation. This will enable adequate information to be captured at an early stage for risk analysis and determination of whether a particular product type should be subject to mandatory clearing.

OTC Clear would recommend that the initial mandatory reporting scope should be quickly expanded to include product types that are widely traded in Hong Kong, including but not limited to OTC FX swaps and options, non-deliverable interest rate swaps and cross currency swaps which have already been mandated for reporting in other jurisdictions. Additionally as the HKD, CNH and CNY markets are systemically important for Hong Kong, the initial mandatory reporting obligation should at least cover all HKD and CNH denominated transactions as well as CNY non-deliverable transactions falling within the proposed product range.

**Q7. Do you have any comments or concerns about how the reporting obligation in respect of CCPs has been cast?**

OTC Clear supports the proposed reporting obligations that apply to a CCP. OTC Clear currently only provides proprietary clearing for direct clearing members, the service intends to introduce client clearing services in advance of mandatory clearing becoming effective in Hong Kong, subject to the approval of the SFC. OTC Clear intends to operate a principal-to-principal client clearing model, in which the end-user client would face its clearing broker (OTC Clear's clearing member) as principal, which in turn would face OTC Clear as principal. The contractual relationships would be effected by back-to-back trades between the parties. Under this model OTC Clear will only have a contractual relationship with its clearing member and would thus reasonably expect its obligations to only extend to the reporting of transactions to which it is a principal.

**Q20. Do you have any comments or concerns about how the concession period and grace period are proposed to operate?**

OTC Clear supports the concept of concession and grace periods and will be able to fulfil the proposed CCP reporting obligations within a three-month concession period.

**Q22. Do you have any comments or concerns about the proposed types of transaction information required to be reported for the purposes of the reporting obligation, or as to how these have been expressed in Schedule 2?**

OTC Clear notes the proposal in paragraph 118 and in Rule 28(1) of the Draft Rules for a reporting obligation to be fulfilled within two business days, i.e. on a T + 2 basis, where "T" is defined as the date when the transaction is entered into. This will be achievable for OTC Clear on the proviso that for the reporting purposes of a CCP, the initial business date, "T" is (re)defined as the day that the trade is submitted for novation. Indeed OTC Clear would intend to report cleared transactions at the end of day on the same day as their initial novation to the clearing house. OTC Clear's preference will be to report to the HKTR on a daily "snapshot" basis and we would

welcome further discussions with the HKTR on how this might be achieved from a technical perspective.

OTC Clear has no concerns about the proposed types of transaction information required to be reported for the purposes of the reporting obligation.

**Q23. Do you have any comments or concerns about the proposal to require the reporting of valuation transaction information in the future?**

OTC Clear has no concerns with the proposal to require the reporting of valuation transaction information and would intend to provide a mark-to-market valuation of all cleared transactions reported to the HKTR, on a daily basis, as long as the transactions remain outstanding.

OTC Clear notes the stated intention of HKMA and the SFC to require the reporting of valuation transaction information at a subsequent phase, possibly in or after late 2015 and is happy to participate in any industry forums established to determine detailed requirements.

**Q25: Do you have any comments or concerns about the proposals on masking counterparty information under certain circumstances as a temporary measure?**

OTC Clear notes that the secrecy obligations under section 378 of the SFO are drafted so that mandatory trade reporting under Hong Kong law will not be problematic. However as HKMA and the SFC recognize in the Consultation Paper, foreign jurisdictions may have secrecy provisions which prevent disclosure of certain information even when the client has consented to such disclosure. We welcome HKMA and the SFC's willingness to allow masking of counterparty identifiers incorporated in certain jurisdictions and would welcome the opportunity to be involved in discussions concerning which jurisdictions will be designated by the SFC pursuant to Rule 31.

**Q29. Do you have any comments or concerns about the types of records proposed to be kept, and the manner in which they are to be kept?**

OTC Clear has no concerns about the types of records proposed to be kept. Given that the reporting of valuation transaction information is not expected until a later phase, OTC Clear would welcome the opportunity to comment on any specific requirements in more detail at the appropriate time.

**Additional Comment**

In addition to the foregoing questions, OTC Clear notes in Section L of the Consultation Paper that any public disclosure of data collected via the HKTR will initially be on an aggregate basis only and that details of the mechanism for the public disclosure of HKTR data are being considered.

OTC Clear recommends that the data collected should be made available to the public in a usable format. In making this recommendation, we note that IOSCO and CPSS published (in August 2011) a consultative report: Report on OTC Derivatives Data Reporting and Aggregation Requirements (the “TR Report”). The TR Report contemplates that a certain minimum level of data be reported to trade repositories and, where necessary, regulators should have the ability to request additional data. In addition, the TR Report states that public dissemination of TR data would improve transparency of OTC derivative markets and thus promote understanding of OTC derivative markets by all stakeholders, promote investor protection, facilitate the exercise of market discipline and underpin investor protection. Data that is disclosed to the public should cover two main aspects:

- aggregate information on the market activity that should enable an appropriate assessment of the geographical and currency distribution of activities and notional positions, including by types of counterparty; and
- aggregate state information (that is, a snapshot) that provides views of concentration of the market.

From a CCP perspective, having an up-to-date understanding of the distribution of market activities would better allow the CCP to manage concentration and liquidity risks of its existing suite of cleared products and would also assist in the risk management assessment of the suitability of new products for clearing.