

Date: 18<sup>th</sup> August 2014

**Response to Consultation paper on the  
Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules**

**Q4. Do you have any comments or concerns about how the terms “conducted in Hong Kong” and “affiliate” are proposed to be construed, or how this limb of the reporting obligation is cast? In particular, do you have concerns as to how this proposal might impact entities that keep a global book?**

*Where an LC or AMB is executing on behalf of its affiliate, and its affiliate is subject to local reporting requirements (e.g. in the UK), the SFC/HKMA may want to consider to rely on the affiliate's home regulations (i.e. substitute compliance). Moreover where the executed transaction has no impact to the Hong Kong markets we do not think there is much value to subject the affiliate to Hong Kong's OTC regulations only because the LC or AMB who is executing the trade is based and regulated in Hong Kong.*

*Example:*

*A Hong Kong LC acts as execution agent for its affiliate which is a UK regulated entity. The affiliate is the counterparty to the trade, and the other counterparty is a non-HK based entity. Therefore the only nexus with Hong Kong in this scenario is the executing agent who is a Hong Kong LC.*