DTCC

8 Marina View
Asia Square Tower 1
Level 07-04
Singapore 018960

August 18, 2014

Financial Stability Surveillance Division
Hong Kong Monetary Authority
55/F Two International Finance Center
8 Finance Street, Central
Hong Kong
Via Email: fss@hkma.gov.hk

Re: Consultation Paper on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules ("Consultation Paper") - July 2014 issued by the Hong Kong Monetary Authority ("HKMA") and Securities and Futures Commission ("SFC")

Dear Sir or Madam,

On behalf of the Depository Trust and Clearing Corporation ("DTCC"), we appreciate the opportunity to comment on the Consultation Paper.

DTCC's Repository Service

DTCC operates companies that provide trade reporting around the world. These companies and the countries in which they are incorporated are listed below:

DTCC Data Repository (U.S.) LLC	("DDR")	United States
DTCC Derivatives Repository Ltd.	("DDRL")	United Kingdom
DTCC Data Repository (Japan) KK	("DDRJ")	Japan
DTCC Data Repository (Singapore) Pte Ltd	("DDRS")	Singapore

DDR, DDRJ and DDRS are licensed and are actively engaged in operating as trade repositories at present in their countries of incorporation. DDR anticipates being licensed as a trade repository in Canada in the near future by the Ontario Securities Commission, Manitoba Securities Commission and Autoritè Des Marchès Financier respectively, to meet reporting compliance on October 31, 2014. DDRS has applied to the Australian Securities and Investments Commission to be licensed as a foreign trade repository in Australia and expects to receive its license in time to support reporting compliance on October 1, 2014. DDRL is licensed to operate as a trade repository by the European Securities and Markets Authority ("ESMA") under European Market Infrastructure Regulation ("EMIR") and is also licensed as an FCA service company and offers trade repository services for voluntary reporting . DDRL is acting as an agent to facilitate banks and licensed corporations to report their trades to the Hong Kong Trade Repository ("HKTR").

DTCC through its subsidiaries offering the Global Trade Repository service is the only company that supports regulatory reporting in the Asia-Pacific region for all five major derivatives asset classes, including credit, interest rates, equities, FX and commodities. It now processes two million submissions a week from across the region.

Attached are our comments to the Consultation Paper. DTCC welcomes the opportunity to discuss these comments with HKMA in greater detail if you so desire.

Yours Sincerely,

DTCC Data Repository (Singapore) Pte. Ltd.

General Comments

DTCC appreciates the efforts of HKMA to align the reporting of interest rate swap ("IRS") and non deliverable forward ("NDF") transactions with the industry. As myriad regulatory regimes emerge, DTCC believes the harmonization of data will reduce data fragmentation and improve data quality in the global marketplace. In furtherance of such harmonization, DTCC has encouraged regulators around the world who are looking to implement or refine their trade reporting regulations to harmonize their requirements with ESMA as the de facto standard based upon the reality that more than 60% of the world's OTC derivative transactions are reported under EMIR to ESMA. The benefits to be gained by harmonization, standardization and simplification are in the reuse of technology, facilitation of data aggregation and data access across jurisdictions and more efficient alternative compliance.

Reuse of Technology

In the current global OTC trade reporting landscape, the majority of firms reporting OTC derivatives are reporting trades in accordance with ESMA requirements. To maximize reusability and reduce costs for firms, trade repositories, and other supporting platform vendors, DTCC has encouraged regulators who are looking to implement their trade reporting regulations to harmonize their requirements with ESMA. As a result of this effort regulators in other jurisdictions have adopted an "ESMA-like" standard and it is becoming the global standard for trade reporting.

Timing Considerations - Industry readiness

DTCC applauds HKMA for proposing a phase implementation of its proposed rules. It has been DTCC's experience that phased implementations are more efficient in that they allow for the most sophisticated parties to lead the way and work through any challenges prior to the imposition of reporting requirements on the rest of the industry.

DTCC encourages HKMA to take into account the considerable amount of lead time necessary for firms to comply with new regulations. While HKMA can leverage the existing technical work that has been done by all stakeholders in OTC reporting, stakeholders need sufficient time to adapt their systems to HKMA reporting for a nexus and reporting scope expansion. Even with an emerging level of standardization, it is DTCC's experience, generally speaking, that expanding the reporting scope requires 6 to 9 months for the industry to prepare from the date the regulation is enacted. Moreover, the industry may also face concentration risks from the trade reporting obligation in multiple jurisdictions. DTCC suggests HKMA take these factors into consideration when designating the reporting commencement dates for the proposed changes to reporting requirements.

Response to Specific Questions Raised in the Consultation Paper

1. PERSONS (OTHER THAN AIS/AMBS/LCS) THAT WILL BE SUBJECT TO MANDATORY REPORTING

Q1. Do you have any comments or concerns about the proposed definition of "Hong Kong person", "RCH" and "ATS-CCP"?

1.1 DTCC does not have any comments on this proposal other than to encourage robust dialogue with impacted stakeholders regarding their ability to adapt their systems to account for the coverage of this definition.

2. OTC DERIVATIVE TRANSACTIONS THAT WILL BE SUBJECT TO MANDATORY REPORTING

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?

2.1 DTCC supports the HKMA and SFC's proposed approach in defining the types of OTC derivatives that would be subject to mandatory reporting. Our understanding is that, overnight indexed swap would be considered reportable under the Consultation Paper. As such, it is our understanding that the OTC derivatives proposed in the Consultation Paper are consistent with the Interim Reporting Requirements, which explicitly defines vanilla single currency interest rate swaps to include fixed against floating, basis swaps and overnight indexed swaps

Q3. Do you have any comments or concerns as to how IRS and NDF are proposed to be defined in Part 1 of Schedule 1 of the Draft Rules, or how the reportable transaction, or the class to which they belong, have been describer in Part 3 of Schedule 1?

2.2 DTCC understands that this definition is consistent with the current Interim Reporting Requirements, thus have no further comments on the proposed definitions. . DTCC would like to stress the importance of aligning HKMA requirements with existing globally accepted data standards.

3. REPORTING OBLIGATIONS OF AIs, AMBs AND LCs

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

DTCC encourages the HKMA and the SFC to align its "conducted in Hong Kong" nexus as closely as possible to the similar concept in Singapore. As the Monetary Authority of Singapore ("MAS") is looking to apply a similar reporting regime, DTCC believes the industry would highly benefit from a standardized approach in order to achieve the desired Asian reporting nexus. A standardized approach would assist the industry in minimizing cost associated in multiple jurisdictions reporting in Asia.

Q5. Do you have any comments or concerns about how we have case the proposal that AIs and LCs that are registered/licensed for Type 9 RA must report transactions that they have entered into in their capacity as fund manager?

3.1 DTCC does not have any comments on this proposal.

Q6. Do you envisage any specific difficulties if this proposal were to be extended to also require an AI or LC that is registered/licensed for Type 9 RA to report transaction that it has advised a counterparty on, i.e. even though it has not entered into the transaction on behalf of that counterparty? If so, please provide details of the specific difficulties envisaged.

3.2 DTCC believes that requiring an AI or an LC to report a transaction where it has advised the counterparty but has not entered into a transaction on their behalf may create unnecessary duplicative reporting. DTCC suggests that the reporting obligation be limited to the parties who enter into a transaction or the parties who execute the transaction in their capacity as fund manager. Please find below the reasons as to why DTCC feels this approach may be difficult implement.

3.2.1 This proposal currently does not aligned to other jurisdictions. Reporting obligation for other jurisdictions are limited to parties who entered into a transaction or executed the transaction.

3.2.2 AIs and LCs that have only played an advisory role would have difficulties in sourcing the data that they would be required to report, as they may not have exposure to systems that maintains the detail of information required by the HKMA and SFC. The parties that would have this information would be the party entered into the transaction and the party that executed the transaction.

4. REPORTING OBLIGATION OF CCPs

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

4.1 DTCC agrees with the proposal to align CCP reporting with the requirements in other jurisdictions.

5. REPORTING OBLIGATION OF HONG KONG PERSONS

Q8. Do you have any comments or concerns about the proposed approach to be taken in respect of the different type of Hong Kong persons?

5.1 DTCC does not have any comments on this proposal.

Q9. Do you have any comments or concerns about how the reporting obligation will apply to funds? Do you envisage that funds may face practical difficulties in complying with this obligation? If so, please provide details of the specific difficulties envisaged.

5.2 DTCC does not have any comments on this proposal other than to suggest that the requirements align with those in other jurisdictions

Q10. Do you have any comments or concerns about the proposed methodology for calculating if the reporting threshold or exit threshold has been reached?

5.3 DTCC does not have any comments on this proposal.

Q11. Do you have any comments or concerns about the proposal levels of the reporting threshold and exit threshold?

5.4 DTCC does not have any comments on this proposal.

Q12. Do you have any comments or concerns about the proposed reductions to the reporting threshold and exit threshold at a later stage?

5.5 DTCC does not have any comments on this proposal.

6. APPLICATION TO CROSS BORDER TRANSACTIONS

Q13. Do you have any comments or concerns about the proposed application of the mandatory reporting obligation to cross-border transactions? If so, please provide specific details.

6.1 DTCC believes that cross-border collaboration is essential to managing market transparency and market risk. HKMA's approach in this regard is consistent with global standards and it is an approach that seeks to facilitate transparency. HKMA must however, be aware that statutory and legislative challenges can potentially arise with respect to cross border transactions should the laws of differing jurisdictions conflict. Privacy agreements, indemnification clauses and Memorandum of Understanding ("MOU") requirements can in some circumstances prevent timely access to data or prohibit data sharing altogether. We encourage the HKMA and SFC to work with its fellow regulators to break down the barriers to data sharing which can effectively allow for cross border collaboration and sharing and reduce the need for individual regimes to seek to expand their reach cross border.

7. EXEMPTIONS AND OTHER RELIEF FROM THE REPORTING OBLIGATION

Q14. Do you have any comments or concerns about the proposed exemptions and reliefs, and the criteria for triggering them?

7.1 DTCC does not have any comments on this proposal.

Q15. Do you have any comments or concerns about the proposal to exclude from the exempt person relief for IRS and NDF those licensed banks which have already reported to the HKMA via the HKTR under the interim reporting requirements and have outstanding reporting transactions on the commencement of the Draft Rules?

7.2 DTCC does not have any comments on this proposal.

Q16. With respect to the relief for AIs, AMBs and LCs that are less active in the OTC derivatives market, do you consider the proposed criteria of 5 transactions per product class, and aggregate gross notional value of US$30 million to be appropriate? If not, please provide specific details of why they may be inappropriate and what alternative criteria should be adopted.

7.3 DTCC does not have any comments on this proposal.

8. BACKLOADING REQUIREMENT FOR OUTSTANDING TRANSACTIONS

Q17. Do you have any comments or concerns about how the proposed backloading requirement will apply to transaction outstanding on the starting day? If so, please provide specific details.

8.1 DTCC has no objections to the proposed backloading requirement. DTCC supports backloading of live transactions to enable regulators to have a complete view of the market as of a point in time and going forward.

Q18. Do you have any comments or concerns about the proposal to have different starting days in respect of different types of reportable transactions? If so, please provide specific details.

8.2 DTCC has no objections to the proposal to have different starting dates in respect of different product types of reportable transactions, stated in section 114 (b) of the Consultation Paper. DTCC would like the HKMA and SFC to respectfully consider providing the industry with approximately 6 to 9 months after the regulation is enacted before the commencement date of the proposed changes. This would ensure that the industry has significant time to prepare operationally and technologically.

Q19. Do you have any comments or concerns about how the starting day might impact AIs, AMBs and LCs that previously qualified for the exempt person relief? If so, please provide specific details.

8.3 DTCC does not have any comments on this proposal.

9. TIME FOR REPORTING AND GRACE PERIODS

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

9.1 DTCC is supportive of the introduction of a concessions period and a grace period. However, based on our experience of compliance implementation globally, DTCC feels that the concession period of 3 months is too short and should be extended to a minimum of 6 months.

9.2 DTCC has worked with the middle market participants and corporates in Singapore to assist these market participants in meeting their reporting requirement for MAS and ESMA. From the consultation paper, it is understood that the HKMA is looking into expanding its reporting scope to include the middle market participants and corporates in Hong Kong. Based on DTCC's experience of working with the industry, we anticipate that all stakeholders, including banks, vendors and agents, would need at the very least 6 to 9 months for the industry to prepare from the date the regulation is enacted. The middle market participants and corporates do not have the same resources available to them as the licensed banks. As such, they would most likely rely on the licensed banks (through delegated and/or agent reporting) and vendors for assistance. This would require a more extensive concession period as there would be additional communication, integration and necessary documentation required in place between the banks or vendors and the middle markets or corporates.

9.3 According to section 120 (a) of the Consultation Paper, the HKMA and SFC proposed that a 3 month concession period will apply each time a new product type becomes reportable. DTCC proposed that this period be extended from 3 months to a minimum of 6 months. Please find below our reasoning for proposing a concession period extension.

9.3.1 Based on our experience, the industry would need to plan operationally, financially and technologically well in advance for a new product introduced to a jurisdiction. Although the HKTR would release the technological specifications prior to the publication of the reporting requirement, clarification that could halt technological builds would usually arise during the consultation period. As such, the industry may not be able to commence on the final build until the final publication is released. A 3 month lead time from the final rule publication is both costly and risky for the industry to implement, especially taking into account approximately 6 to 8 weeks of testing.

9.3.2 It should also be noted that any change of requirements would require a round of internal and industry testing. DTCC would prefer to allow for a 6 to 8 weeks testing period between itself and the industry. Taking into account the testing period, this would only leave the industry 1 month of the concession period to implement any technologically changes. Based on experience, this shortened timeframe exposes the industry to resource constraints and technological risk in trying to meet the compliance reporting requirements.

9.3.3 There are multitudes of compliance implementations globally, especially in Asia, throughout 2014 and 2015. DTCC would respectfully request that the HKMA and SFC take into consideration the other global initiatives to prevent concentration risk on the various implementation timelines. In order to reduce risk for DTCC and the industry, it would be beneficial (in terms of budgeting, resource allocation, system calibration, internal testing, user testing and code release) if the HKMA and SFC would consider providing sufficient time between the final reporting requirement publication and the compliance date.

Q21. Do you have any comments or concerns about how the grace periods will vary in respect of entities that become an AI, AMB or LC at a later date, or that cease to be an exempt person at a later date?

9.4 DTCC does not have any comments on this proposal.

10. FORM AND MANNER OF REPORTING OBLIGATION

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?

10.1 DTCC would like to seek further clarification regarding the proposed information required by 8 (a) of Schedule 2. It is stated in the Consultation Paper that "the series of interest payments to be paid by each counterparty" is to be reported for an interest rate swap agreement. Under the Interim Reporting requirements, the actual payment series is not reported. Since vanilla interest rate swaps trades are reportable derivative transactions, the payment streams are expressed through the information required from 8 (b) through to 8 (f) or Schedule 2. As such, DTCC believes that reporting the series of interest payments would be redundant.

10.2 DTCC would like the HKMA and SFC to consider the floating rate tenor, as indicated in part 8 (f) of Schedule 2 to be an optional field for Overnight Indexed Swap ("OIS"). Please refer to DTCC's reasoning as stated below.

10.2.1 The floating rate tenor is not required due to the nature of OIS products. OIS is a daily index; as such the tenor would always be daily. Having to report the tenor of the floating rate index is redundant

10.2.2 When the industry trades, confirms and reports OIS in other financial centers (e.g. US, Europe, Singapore and Australia), this transaction field is not reported to the trade repository. Thus, as firms are and will be subjected to reporting requirements in multiple jurisdictions, it will be challenging for the industry if Hong Kong's requirements for this instrument deviate from the industry and global standards, especially given that the data in this field do not provide additional information or benefit.

10.2.3 DTCC is also concerned that any changes made to add this data field for the purposes of Hong Kong reporting will have unintentional knock-on effects on submissions made to other jurisdictions, given that banks are leveraging on global trade repositories and global confirmation platforms to meet global reporting requirements. We also note that the industry has been working closely with regulators globally to ensure consistency and improve the quality of trade repository data. A major step would be standardization of information to be reported.

10.3 DTCC had no further comments on the proposed valuation fields under 6 (a) to 6 (c) of Schedule

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

10.4 DTCC is appreciative that the HKMA and SFC decided to incorporate the global standard of valuation reporting. DTCC is agreeable on the late 2015 proposed timeline, however due to multiple other regulatory initiatives at that time, DTCC would highly encourage early 2016 to prevent any implementation concentration risk.

Q24. Do you have any comments or concerns about our proposals on how subsequent events are to be reported, and when they will cease to be reportable?

10.5 In reference to point 133 of the Consultation Paper, DTCC would like to request that the HKMA and SFC provide further guidelines on delegated reporting, specifically counterparty delegation.

10.6 Although it is stated that "it is acceptable for market participants to appoint a third party (including a global TR) as an agent for the purpose of reporting to the HKMA via the HKTR" and that the "Draft Rules do not prohibit reporting via an agent", agent-on-agent reporting through delegation whereby one counterparty to a trade reports the data for both parties via an agent, such as a global TR, is not explicitly mentioned. DTCC proposes that the HKMA and SFC take into consideration the complexity of this agent-on-agent relationship and suggests HKMA and SFC to align the delegation model to conform to those allowed by MAS and ASIC in order to achieve a combined Asian standard.

10.7 DTCC would like to propose that the HKMA and SFC take into consideration the possible system limitation and look into aligning the HKTR technical specification against the proposed reporting scope. Please find details and examples outlined in the points below.

10.7.1 Based on experience with other jurisdiction implementation, DTCC believes that banks would be requested to perform delegation on behalf of their counterparties once the reporting scope has been expanded as proposed in the Consultation Paper. In order for banks to be able to perform the delegation function successfully, the bank who is submitting on behalf of their client through a third party agent should (i) be represented accurately in the submission to the HKTR as the submitter on behalf of the other party; and (ii) based on this relationship, such submitting party should be capable of directly viewing the transactions they have submitted pursuant to a delegation through the HKTR system.

10.7.2 For example, when counterparty delegation is performed through an agent, the current HKTR system does not allow for the 'Submitting Party', which should be the delegate, and the third party agent to be accurately distinguished. As such, in accordance to the HKTR system and procedures, the delegate would not have access to view those transactions in the HKTR.

10.7.3 Taking into account the system limitations within the HKTR, DTCC would like to respectfully request that the HKMA and SFC consider factoring this into the reporting compliance timeline.

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

10.8 DTCC does not have any comments on this proposal other than to request that HKMA align its permissible selective counterparty name reporting with other jurisdictions to promote global consistency in transaction reporting

Q26. Do you have any comments or concerns about the proposals for subsequently reporting information when the pre-requisites for masking cease to exist?

10.9 It should be noted that unmasking historical data is not an insignificant task for the industry and there are some inherent complications that could make compliance by the industry burdensome. We suggest that the HKMA conduct further research to consider the impact of their proposal on the industry and should the prerequisites for masking cease to exist we urge the HKMA to reconsider whether or not this should apply retroactively or to new transactions only.

11. SPECIFIED SUBSIDIARIES OF LOCALLY-INCORPORATED AIS

Q27. Do you have any comments or concerns about the proposal that an AI's reporting obligations in respect of transactions entered into by its specified subsidiaries should be the same as its reporting obligations in respect of transactions to which it is a counterparty itself?

11.1 DTCC does not have any comments on this proposal.

12. USE AND PUBLIC DISCLOSURE OF DATA COLLECTED BY THE HKMA VIA THE HKTR

12.1 DTCC wholeheartedly endorses HKMA's embrace of both CPSS-IOSCO and the FSB's guidance on access to TR data and aggregation. In this regard, DTCC would encourage HKMA and SFC to work with its fellow regulators to advance the ability of TRs to share data by reforming laws and regulations that currently stand as obstacle to data sharing. DTCC would also like to encourage the HKMA to pursue international data standards which are a fundamental prerequisite to the effective aggregation of data envisioned by the FSB.

Q28. Do you have any comments or concerns about the proposed record keeping requirements in relation to mandatory reporting?

12.2 DTCC does not have any comments on this proposal.

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?

12.3 DTCC does not have any comments on this proposal.

Q30. Do you have any comments or concerns about the duration for which the records are proposed to be kept?

12.4 DTCC does not have any comments on this proposal other than to encourage HKMA to align its data retention standards with those in other jurisdictions and to work toward an international standard for data retention.