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**Consultation Conclusions and Further Consultation Paper on the Securities and Futures
(OTC Derivative Transactions – Reporting and Record Keeping) Rules**

Dear Sir/Madam:

I appreciate the opportunity to comment on the *Consultation Conclusions and Further Consultation Paper on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules* jointly published by the Hong Kong Monetary Authority (“HKMA”) and the Securities and Futures Commission (“SFC”) on November 28, 2014 (the “Paper”). The Paper sets out conclusions and further proposals for mandatory reporting and related record keeping obligations. I have set out in this submission our comments on the Paper.

Records to be kept

The Paper has attached a revised draft of the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules (the “Draft Rules”) under Appendix C. Under the Draft Rules, item 30 (page 59) “Manner in which records to be kept,” we request HKMA and SFC to adopt a requirement to the condition that the reporting entities will keep such records *using existing search capabilities in their relevant systems*.

Currently, it is market practice to conduct trades via many methods, including the use of instant chat rooms such as those provided by Reuters and Bloomberg. Such correspondence relating to these trades is and will continue to be retained but given the vast amount of exchanges that take place using these platforms, the precise thread will not be “readily searchable and identifiable by reference to the transaction and the counterparty to the transaction” in the near term, and unlikely until a broader industry wide solution is developed. For example, in some instances, these communication platforms are maintained by a third party provider and users do not have the ability to modify the system. Therefore any in-house/internal information technology enhancements cannot be performed. In other instances, we do not have a potential system enhancement or workaround developed that will allow us to reference the transaction and counterparty to the transaction on pre-trade communications.

At the moment, there are no practical solutions, including those made available by third party providers, that can fully satisfy the requirement to make and keep transaction records in a manner that is “identifiable and searchable” by transaction and counterparty. We respectfully request HKMA and SFC to exclude the requirement of keeping the records in a manner that is “readily searchable or identifiable by reference to the specified OTC derivative transaction and the counterparty to the transaction” in respect of any pre-trade exchanges between the parties, or at most, subject this requirement to the condition that the reporting entities will keep such records “using existing search capabilities in their relevant systems.”

We support the principle of record keeping and will endeavor to comply with the newly introduced requirements, but the current guidance issued by the HKMA and SFC under the Paper presents immense challenges not only for . . . , but also for the industry as a whole.

Reporting outstanding transaction and transactions entered into during concession period

Under Draft Rules item 21(3) (page 53), “Reporting outstanding transactions and transactions entered into during concession period”, a nexus transaction is reportable if it satisfies either Rule 21(3)(a) or (b). We understand that this means reporting entities are required to report nexus transactions entered into during the concession period (e.g. January 1, 2015 and June 30, 2015) no later than the end of such period (e.g. June 30, 2015) or 3 months thereafter (e.g. September 30, 2015), should the reporting entity elect to do so.

While we appreciate the extension of the concession period, the benefit of such extension is mitigated by the requirement to capture “conducted in HK” nexus transactions during the

concession period. We respectfully submit that reporting entities should be allowed the entire concession period for system enhancements, modifications to existing standard operating procedures, conducting training sessions, establishing a reporting channel, and start capturing data relating to and reporting nexus transactions only from the end of the concession period. In that regard, given the Paper was published on November 28, 2014, if nexus transactions were intended to be captured from the first day of the concession period, reporting entities will effectively only have six to eight weeks in building a solution (assuming the Legislative Council will adopt the rules in January 2015), and performing acceptance testing on any solution built. We do not believe this provides adequate time to make such large scale changes in a well-controlled manner.

As these Draft Rules relating to the reporting of “conducted in HK” trades will require significant system enhancements, a minimum of six months is needed to complete them. Nexus identifying information on trades which have been “conducted in HK” during the concession period (including those which are outstanding as of the first day of the grace period) cannot be captured or reported until these enhancements are made. Our system does not operate retrospectively and is only able to record future trade information. (Please note the “booked in HK” trades do not currently present any challenge.) Finally, by way of comparison, it is worth noting that while FX reporting in Singapore begins on May 1, 2015, reporting of nexus transactions will only commence on November 1, 2015 [see MAS’ Securities and Futures (Reporting of Derivatives Contracts) Regulations].

Thank you again for the opportunity to comment on the important matters raised within this Paper. Please feel free to contact _____, should you wish to discuss _____’s submission in greater detail.

Sincerely,