



30 October 2015

Securities and Futures Commission  
25/F., Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Dear Sir/Madam,

Re: Consultation on introducing mandatory clearing and expanding mandatory reporting

The Hong Kong Association of Online Brokers ("HKAOB") welcomes the consultation being conducted by Securities and Futures Commission ("SFC"). As industry participants, we are aligned with the regulators to keep Hong Kong securities market fair, transparent and to protect investors at large. For Hong Kong to remain as an international financial centre, we agree to reform the OTC derivatives market to align with commitments made by G20.

HKAOB has comments on the following questions:

For Q33 on Page 46

**Do you have any comments or concerns about our proposal to defer implementation of the changes to the definition of "market contract" to cover CCPs that are authorized ATS providers and designated CCPs? If you do, please provide specific details.**

In parallel to the proposed new rules on mandatory clearing, there are OTC derivatives- related consultations on proposed revamp in financial resources rules and new licensing arrangements. Many LCs are studying the impact of these upcoming regulatory changes, and making comprehensive plans (including restructuring their operations) to accommodate all these changes. Some of these LCs' plans would include the reliance of designated CCPs to optimise their capital charges for credit risks under the proposed FRR.

Failure to obtain insolvency override protection would certainly hurt a ATS provider/CCP's credit worthiness, necessitating the rise in capital charges for LCs clearing trades through it. Since this delay in broadening the definition of "market contract" would lead to some (or even all) of the CCPs operating without such insolvency protection, the question is then whether the SFC have made any provisions to synchronise the implementation of the new FRR, licensing requirements, with the mandatory clearing rules.

For Q40 on Page 59

**Do you have any comments or concerns about our revised proposal on the reporting of valuation transaction information? If you do, please provide specific details.**

Given a prescribed person must report a transaction's daily valuation determined by a CCP if the transaction is cleared through a CCP (para 190(a)), and the CCP is in possession all reporting particulars specified in para 188, would the HKMA and SFC consider allowing the person to delegate the reporting duty to the CCP, thereby easing the operational burden on that person? Indeed, such arrangement, once the infrastructure is set up and if widely (or even fully) adopted, should create economies of scale in the market's aggregate reporting effort, as the daily valuation data flow would be simply between the CCP and HKTR, rather than from CCP to individual clearing members/prescribed persons, and then from the multiple latter to the HKTR. Hence, this option to delegate reporting duty should therefore further incentivise market players to shift more trades to central clearing, thereby escaping the difficulties of having to report mutually agreed (on a daily basis, no less) valuations for non-centrally cleared trades.



Yours faithfully,

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The Hong Kong Association of Online Brokers