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By post and email: fss@hkma.gov.hk

Financial Stability Surveillance Division
Hong Kong Monetary Authority
55th Floor, Two International Finance Centre
8 Finance Street
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Ladies and Gentlemen

Response to proposed data fields to be completed for phase 2 reporting

Thank you very much for the opportunity to respond to this consultation.

The Hong Kong Association of Banks (“HKAB”) welcomes the opportunity to comment on the proposed data fields to be completed for phase 2 reporting.

As you are aware, on 6 November 2015 we made a submission on behalf of our members in relation to the Consultation paper on introducing mandatory clearing and expanding mandatory reporting (“**Consultation Paper**”). Our membership maintains an active interest in Hong Kong’s clearing and reporting regime. We appreciate the continued efforts of the HKMA in keeping us informed of developments in this area.

Assisted by King & Wood Mallesons, we have carefully considered Question 39 and examined the data fields set out in Appendix D to the Consultation Paper. In summary, we suggest certain enhancements to ensure consistency and uniformity in reporting. These alterations relate to matters including:

- (a) clarity concerning whether or not certain individual data fields are required, conditionally required, or optional;
- (b) implementation timing;
- (c) alignment with global standards to the maximum extent possible;
- (d) the provision of examples of completed data fields to assist the industry with consistent implementation;

Chairman The Hongkong and Shanghai Banking Corporation Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Ltd
Secretary

主席 香港上海匯豐銀行有限公司
副主席 中國銀行（香港）有限公司
渣打銀行（香港）有限公司
秘書



- (e) the definitions of certain key terms used in the data fields; and
- (f) the information expected for certain data fields.

Next steps

We welcome the opportunity to discuss these comments further. Please let us know if you have any questions.

Yours faithfully

Enc.

Hong Kong Monetary Authority
Financial Stability Surveillance Division

Securities and Futures Commission
Supervision of Markets Division

Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules

Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules

Response to proposed data fields to be completed for phase 2 reporting

Submission of The Hong Kong Association of Banks

1 December 2015

Introduction

This paper sets out the views of The Hong Kong Association of Banks (“**HKAB**”) in relation to the proposed data fields to be completed for phase 2 reporting.

Assisted by King & Wood Mallesons, HKAB has addressed Question 39 and examined the data fields set out in Appendix D to the Consultation paper on introducing mandatory clearing and expanding mandatory reporting dated September 2015 (“**Consultation Paper**”) issued by the Hong Kong Monetary Authority (“**HKMA**”) and the Securities and Futures Commission (“**SFC**”). HKAB’s views are set out in the “HKAB’s response” section of this written submission, with our key suggestions summarised in the “Executive summary”.

We would be pleased to engage in further discussions with the HKMA and SFC in relation to the proposed changes and to provide further industry input where necessary.

Unless otherwise defined, terms used in our response have the meaning and construction given to them in the Consultation Paper. The headings used below correspond to the headings used in the Consultation Paper.

Executive summary

HKAB appreciates the opportunity to comment on the proposed data fields to be completed for phase 2 reporting. In summary, HKAB:

- (a) is concerned that it is not clear whether individual data fields are required, conditionally required, or optional;
- (b) emphasises the extended timeframes required for our members to implement system changes;
- (c) suggests that the data fields be consistent with global standards to the maximum extent possible;
- (d) suggests that examples of completed data fields would provide valuable guidance to the industry;
- (e) is concerned that some key terms used in the data fields are undefined and would not have a standard interpretation across the financial services industry;
- (f) requests clarification of the information expected for certain data fields; and

- (g) requests that certain data fields incorporate emerging global standards, such as “Legal Entity Identifiers”.

Next steps

We welcome the opportunity to discuss these comments further.

PART II - PROPOSALS ON EXPANDING MANDATORY REPORTING

D Reporting of valuation transaction information

- 39 Do you have any comments or concerns about the specific data fields set out in the tables at Appendix D? If you do, please provide specific details, including suggestions for alternative ways to capture the relevant information.**

Identification of mandatory data fields

- 39.1 The Consultation Paper states that the data fields set out in Appendix D are "mandatory". However, HKAB is concerned that, in practice, it is not possible to meet the requirements of all data fields because, for example, some of the data fields only apply to particular products or could not be completed for all transactions such as price, which is unlikely to be able to be completed for every product type. It is therefore not clear which data fields are required, conditionally required, or optional.
- 39.2 We therefore request that the list of mandatory data fields is provided before the first quarter of 2016, if possible. This will enable our members to study these in detail, provide further comments, and make all necessary preparations and system changes.

Introduction of mandatory reporting – timing

- 39.3 HKAB reiterates its request¹ that, based on member feedback, at least 12 months, and more likely 18 months, is required in order to give our members sufficient time to change their systems once they have received the final list of mandatory data fields.

Consistency with global standards

- 39.4 HKAB suggests that the HKMA and the SFC liaise with trade repositories, such as cross-jurisdictional Depository Trust & Clearing Corporation Global Trade Repository ("DTCC GTR"), to map or otherwise reconcile the data fields set out in Appendix D. Similarly, we suggest that the availability and widespread usage of data standards, such as the Financial Products Markup Language, which is an industry standard, and the SWIFT messaging system, with which financial institutions are familiar, should inform the development of the data fields. To the maximum extent possible, we suggest that uniform standards should be preferred over a bespoke Hong Kong regime.

Examples to assist compliance

- 39.5 HKAB further suggests that the HKMA and the SFC provide examples of completed data fields alongside the descriptions of the information expected for each data field. These examples should also cover situations where the information sought is missing or otherwise not available. This would help ensure that the industry understands the HKMA's and SFC's expectations under phase 2 reporting and ensure uniform reporting across the industry.

Further detail

- 39.6 In the following section we have commented on the data fields that are common to all asset classes, as well as those that are specific to the five assets classes of OTC derivative transactions stated in the Consultation Paper: interest rates, foreign exchange, equities, credit and commodities.

¹ In paragraph 37.2 of its submission dated 6 November 2015.

APPENDIX D – PROPOSED DATA FIELDS TO BE COMPLETED FOR PHASE 2 REPORTING

A Data field common to all asset classes

1 Information and particulars relating to administration of the reporting of the transaction

<p>“Full Termination Indicator”</p>	<ul style="list-style-type: none"> ▪ HKAB requests clarification on whether unwinds and knock-outs should be treated as full terminations indicators. ▪ We also request clarification on what constitutes an “exotic product”. We suggest that any definition should be consistent with definitions used in leading overseas jurisdictions.
<p>“Remarks 1”</p>	<ul style="list-style-type: none"> ▪ HKAB is concerned that the requirement in this data field, and others, to report supplementary pdf files introduces significant complexity to reporting requirements. Further, we note that it is unclear whether a supplementary pdf file upload is mandatory for all exotic products, what kind of supplementary information needs to be provided, and the format for this information. ▪ We suggest that the HKMA and the SFC should consider excluding this requirement from phase 2 reporting. We suggest that the necessary data could instead be captured in additional data fields, rather than through the proposed PDF system.
<p>“Remarks 2”</p>	<ul style="list-style-type: none"> ▪ HKAB requests clarification on what constitutes a “hybrid trade”. ▪ Further, we suggest that the information for this data field may instead be included in the data field labelled “Asset Class”.
<p>“Valuation Request ID”</p>	<p>HKAB requests clarification on the information to be included in this data field.</p>

2 Information and particulars relating to the class or type of product to which the transaction belongs

<p>“Unique Product Identifier (UPI)”</p>	<p>HKAB notes the extensive international consultations currently underway in relation to UPIs, including by the Bank for International Settlements. We suggest that the HKMA and the SFC may wish to align the requirements for reporting this data field with the implementation of the global UPI system.</p>
<p>“OTC Derivatives Product Taxonomy”</p>	<p>HKAB requests clarification of the expected information in this data field. We note that it appears to be indistinct from the data field “Unique Product Identifier (UPI)”.</p>

4 Information and particulars relating to the counterparties to the transaction

<p>“Trade Party 1 and 2”</p> <p>“Industrial Sector”</p> <p>“Counterparty Industrial Sector”</p>	<ul style="list-style-type: none"> ▪ HKAB suggests that these data fields are not necessary in light of the advent of Legal Entity Identifiers (“LEIs”). We are informed that comparable regulators, such as the Securities and Exchange Commission, do not require additional trade party information if LEIs are provided. ▪ We further suggest that an International Organisation for Standardisation country code may be applicable for this data field where an LEI is not available. ▪ We also note that in some cases disclosure of this information may be restricted. In particular, individual’s residence information is not appropriate to be disclosed. We suggest that in these circumstances this data field should not be mandatory.
<p>“Counterparty Origin”</p>	<p>HKAB requests clarification on what information this data field is intended to capture. We note that the description (being “Indicates whether a transaction was done on behalf of a customer or house account”) does not appear to be consistent with the data field label.</p>

5 Information and particulars relating to pricing of the transaction

<p>“Price Notation” (Price Type, Price)</p>	<p>HKAB asks that these data fields be limited to structured products. In respect of equity and portfolio swaps, we suggest that reporting of the initial price would be sufficient.</p>
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6 Information and particulars relating to the documentation of the transaction

<p>“Master Agreement”</p>	<p>HKAB requests clarification on the reporting of master agreements which have multiple master supplements. In particular, whether just the latest supplement can be included or whether all supplements must be included. We also request clarification of other agreements that may arise, such as those relating to Portfolio Swaps.</p>
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8 Information and particulars relating to the execution of the transaction

<p>“Execution Type”</p>	<p>HKAB suggests that the reporting of this information should be through the selection of defined fields, providing set options for execution methods. This would provide the industry with further guidance and promote uniformity across reporting.</p>
<p>“Execution Agent”</p>	<p>HKAB asks that this data field be excluded from mandatory reporting. We note that industry systems do not normally capture execution agent information.</p>

“Execution Date Time”	HKAB asks that this data field be excluded from mandatory reporting. Where the execution time is recorded, it may not be recorded in a uniform manner across the industry.
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9 Information and particulars relating to the clearing of the transaction

“Clearing Exemption”	HKAB asks that this data field be amended only to require this information from the reporting entity and not from any counterparty.
“Special Term Indicators”	For the reasons given in relation to the data field labelled “Clearing Exemption” above, HKAB suggest that it is impractical to indicate whether the transaction is subject to a clearing mandate in this data field.
“Execution Date Time”	HKAB asks that this data field be excluded from mandatory reporting. Where the execution time is recorded, it may not be recorded in a uniform manner across the industry.

10 Information and particulars relating to the compression exercise of the transaction

“Special Terms”	HKAB suggests that it is impracticable to indicate whether a particular contract is part of a compression exercise with the requisite degree of certainty.
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11 Particulars of any identifying references assigned to the transaction

“Bilateral Comments”	<ul style="list-style-type: none"> ▪ HKAB suggests that the HKMA and the SFC consider setting up the reporting of this information via a selection of defined fields, rather than leaving the transaction identifier to be agreed between the parties. We will be pleased to consider or discuss the potential defined fields if needed. ▪ Further, we note that there is no data field for reporting UTIs where there is no mandatory reporting in foreign jurisdictions. We request clarification on whether this data field could contain this information in these situations.
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12 Information and particulars relating to the valuation of the transaction

“Valuation Date Time”	HKAB requests clarification as to the expected degree of accuracy to be included for this data field. We note that the valuation process itself only lasts for a short period of time. Industry systems typically record the start time of the process, but not the exact time that the transaction was valued. In any
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	event, we suggest that the actual valuation time is not material from a regulatory point of view, as the date is the key information and therefore should not be a mandatory field.
“Valuation Type”	HKAB requests clarification as to the expected values for this data field, and further information on the level of detail in which the reference model should be described.

B Rates

5 Information and particulars relating to pricing of the transaction

“Underlying Asset”	HKAB requests clarification as to whether the HKMA and the SFC will provide a list of indices for determining exotic product asset prices.
“Notional Units” (Currency, Amount)	HKAB suggests that this data field is not relevant to the interest rate asset class, and asks that be excluded.

C Foreign exchange

3 Dates and periods relating to the transaction

“Execution Period Start Date” “Execution Period End Date”	HKAB requests further clarification as to the execution period to which these data fields refer.
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4 Information and particulars relating to the counterparties to the transaction

“Buyer” (Type, ID, Party Name)	HKAB requests clarification as to how trades that involve changing buyers and sellers, such as Target Accumulator Redemption Forwards, should be reported in this data field.
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5 Information and particulars relating to pricing of the transaction

<p>“Strike Price - Quoted Currency Pair Basis”</p>	<p>HKAB requests clarification as to how this data field should be completed for options that have multiple strike prices.</p>
<p>“FX Delivery Type”</p>	<p>HKAB requests clarification as to how this data field should be completed for FX conditional settlement trades where delivery type may change according to a specified condition.</p>
<p>“Notional - Leg 1 - Leg 2” (Currency, Amount)</p>	<p>HKAB requests clarification as to how this data field should be completed for trades that have more than two legs.</p>
<p>“Observation Rate Quote Basis”</p>	<p>HKAB is concerned that this data field is overly complex. We suggest that the information sought should be spread across separate data fields.</p>

11 Particulars of any identifying references assigned to the transaction

<p>“Swap Link ID”</p>	<p>HKAB suggests that this data field be excluded from mandatory reporting. We note that not all systems currently require any Swap Link ID. Further, we note that the Near Leg and the Far Leg may be recorded as a single trade.</p>
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D Equity

3 Dates and periods relating to the transaction

<p>“Dividend Leg Termination Date” “Fixed Leg Termination Date”</p>	<p>HKAB suggests that these data fields require further sub-fields for effective dates.</p>
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5 Information and particulars relating to pricing of the transaction

<p>“Underlying Asset” (Exchange ID, Open Unit, Place of Incorporation)</p>	<p>HKAB suggests that these data fields are not necessary where Reuters Investment Codes (“RIC”) are submitted. We are informed that comparable regulators, such as the Securities and Exchange Commission, do not require this information if a RIC is provided.</p>
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<p>“Special Dividends” “Material Non-Cash Dividend”</p>	<p>HKAB requests clarification as to whether this data field refers to dividends or corporate action events that occur on the underlying of an equity swap.</p>
<p>“Type of Return”</p>	<p>HKAB suggests that this data field should reflect either the Total Return or Price Return Swap.</p>
<p>“Settlement Method”</p>	<p>HKAB asks that this data field include an additional option of “Both” to cover all possible transactions.</p>

6 Information and particulars relating to the documentation of the transaction

<p>“Master Supplement Date” “Definitions Type”</p>	<ul style="list-style-type: none"> ▪ HKAB requests clarification as to the expected information for these data fields. For example, we note that it is not clear whether it extends to reporting Master Confirmation Agreements (“MCA”) type and date. ▪ We also request clarification as to whether the reporting of other agreements where portfolio swaps are involved is required.
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E Credit

3 Dates and periods relating to the transaction

<p>“Initial Payment Date”</p>	<p>HKAB requests clarification as to whether this data field refers to payment of the principal or the upfront fee.</p>
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5 Information and particulars relating to pricing of the transaction

<p>“Single Payment” (Currency, Amount)</p>	<p>HKAB requests clarification as to whether these data fields refer to the coupon at settlement or a different payment.</p>
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F Commodity

3 Dates and periods relating to the transaction

“Termination Date” (Unadjusted Date)	HKAB requests clarification as to whether this data field refers to the date that the trade was terminated or the final settlement date.
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4 Information and particulars relating to the counterparties to the transaction

“Buyer” (Type, ID, Party Name)	HKAB requests clarification as to how trades that involve changing buyers and sellers, such as Target Accumulator Redemption Forwards, should be reported in this data field.
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5 Information and particulars relating to pricing of the transaction

“Commodity Exchange ID”	HKAB notes that not all commodity derivatives have an exchange ID.
“Commodity Specified Price”	HKAB requests further clarification on the exact information that should be included in this data field.
“Notional - Leg 1 - Leg 2” (Currency, Amount)	HKAB requests clarification as to how this data field should be completed for trades that have more than two legs.

Next steps

Thank you very much for the opportunity to provide feedback on the proposed data fields to be completed for phase 2 reporting.

Please let us know if we can provide any further support.