



**SWIFT's response to  
the Joint Consultation Paper on  
Enhancements to the OTC Derivatives  
Regime for Hong Kong**

**SWIFT**

**26 April 2018**

**Confidentiality: Public**

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SWIFT thanks the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) for the opportunity to provide comments on the consultation document on enhancements to the OTC derivatives regime for Hong Kong, specifically to the mandate of the use of Legal Entity Identifiers (LEI) for the reporting obligation.

SWIFT is a member-owned cooperative headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholders, comprising more than 2,000 financial institutions. SWIFT connects more than 11,000 institutions in more than 200 countries and territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

If you require any further information or wish to discuss any aspect of our response please do not hesitate to let us know.

Head of Standards, APAC

Head of Securities & FX, APAC

### Question 1

**Do you have any comments or concerns about how we propose to mandate the use of LEIs in OTC derivatives trade reporting? Where appropriate, please separate your comments and concerns for the two phases and the treatment of trades that have already been reported to the HKTR.**

#### SWIFT Feedback:

Standards play an important role in facilitating market efficiency and help data interpretation between market participants and also between market authorities and market participants. To be effective, trade and transaction reporting needs to be implemented consistently. Financial data consistency can only be achieved if all stakeholders have the same understanding of data elements' meaning and purpose.

In this context, the use of globally recognised international standards such as ISO 17442 – Legal Entity Identifier (LEI) removes the need of developing new standards and minimises the cost to those already familiar with, and using, the standard.

Authorities have clearly recognised the importance of ISO 17422 and have incorporated the LEI into regulatory reporting in EU, US and elsewhere. Other initiatives are currently in progress at international level to define and adopt other standards for Unique Product Identifier and Unique Transaction Identifier in the specific domain of OTC derivatives trade reporting.

SWIFT supports the adoption of international standards such as LEI as a key data element in OTC derivatives trade reporting to identify counterparties. It is encouraging to observe that Hong Kong supervisory authorities are in line with global trends mandating the use of LEIs to facilitate regulatory reporting of OTC Derivatives, as market participants have build-up experience with the implementation of European Market Infrastructure Regulation (EMIR) or Market in Financial Instruments Regulation (MiFIR).

In support of HKMA and SFC's industry LEI adoption efforts, SWIFT would be pleased to engage with market participants and share how they can leverage existing LEI registration utilities to comply with the suggested adoption mandates and manage their LEI registrations for local reporting requirements. Among those utilities is the Global Market Entity Identifier (GMEI) Utility, one of the largest accredited LEI issuers, developed by the DTCC in partnership with SWIFT. To date, there are close to 1.2 million LEI registrations globally, with many registrations driven over the past 6 months by the entry into force of MiFIR.

As part of the mandates to adopt LEI for regulatory reporting of derivatives trades in and other financial instruments in other jurisdictions where entities domiciled in HK are counterparties to trades, the latest statistics reveal that 4275 HK entities have already registered for LEI.

As a transitional measure in between the proposed staggered implementation phases of mandatory use of LEIs in trade reporting in Hong Kong, market participants may require data reconciliation support to facilitate adoption of LEI in their reference data systems. SWIFT is therefore providing a publicly available First Open Source BIC-to-LEI Relationship File which provides information on associated BICs and LEI codes of entities that have both identifiers<sup>1</sup>.

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<sup>1</sup> Weblink: <https://www.swift.com/news-events/news/global-lei-foundation-and-swift-introduce-the-first-open-source-bic-to-lei-relationship-file>

The use of LEI as a reference data for OTC derivatives trade reporting also complements the developments and increasing adoption of ISO 20022 message standards for trade reporting, securities and payment flows in the APAC region and beyond. Among the features of ISO 20022 is its rich data model provides an ideal reference point for regulators, market overseers and reporting firms to harvest, aggregate and interpret the data in a clear and accurate manner. For example, the ISO 20022 messages developed by the European Supervisory Authorities for transaction reporting contain dedicated business elements for LEI.

**Question 2**

**Will you have any difficulties adopting the use of LEIs in OTC derivatives trade reporting according to the proposed timelines? If so, please provide details of your difficulties.**

**SWIFT Feedback:**

The suggested phased approach will provide some time to market participants to adapt their back office systems to the use of LEI as data element. Such phased approach by asset class or by type of market participants has also been provided by regulators in EU and US in the implementation of new regulatory reporting regimes.

In the meantime, as noted in our response to Q1, reporting messages in Europe use LEI and the registration of LEI has seen significant increase in the last months. Since the introduction of the ISO 17422 standard, LEI registrations have primarily been driven by regulatory mandates. If required, Hong Kong specifics can be accounted for in current message structures through a change request or it can be covered by development of new ISO 20022 messages.

From our experience with the introduction of LEI, some difficulty may arise with the responsibility of the LEI owner to renew and maintain its LEI reference data. Legislation in EU stipulates that LEI used in regulatory reporting messages must be valid (not be lapsed). It is important for participants to be aware of the maintenance responsibilities of the LEI data to help ensure quality and accuracy of the data.

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