



Depository Trust & Clearing Corporation

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Financial Stability Surveillance Division  
Hong Kong Monetary Authority  
55/F Two International Finance Centre  
8 Finance Street Central  
Hong Kong

Supervision of Markets Division  
The Securities and Futures Commission  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Re: Joint consultation paper on enhancements to the OTC derivatives regime for Hong Kong to— (1) mandate the use of Legal Entity Identifiers for the reporting obligation, (2) expand the clearing obligation and (3) adopt a trading determination process for introducing a platform trading obligation**

Dear Sir and Madam,

The Depository Trust & Clearing Corporation ("DTCC")<sup>1</sup> appreciates the opportunity to provide comments on the well-considered proposals in the Consultation Paper, which are important efforts to further align Hong Kong with the G20's overall commitments regarding the reform of the OTC derivatives regimes.

We encourage the HKMA and the SFC to continue to strive to implement the G20 commitments and in particular to work with CPMI-IOSCO on the work it is doing to standardize and harmonize the data required to be reported to trade repositories.

Attached are our comments on the Consultation Paper. Should you want to further discuss the matter, please do not hesitate to contact

Yours Sincerely,

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<sup>1</sup> DTCC is an industry owned and governed financial market utility, providing financial transaction and data processing services for the global financial industry. DTCC provides a wide range of post-trade services across the financial services industry, including central clearance and settlement and asset servicing for the majority of cash equity and fixed income trading in the U.S., services to support the wealth management and insurance industries, institutional matching and post-trade management services, and trade repositories that provide global compliance reporting for swaps transactions across all asset classes. DTCC also provides the governance, operations, technology applications and infrastructure to support these and other related services.

## Mandating the Use of Legal Entity Identifiers for the Reporting Obligation

DTCC thanks the Hong Kong Monetary Authority and The Securities and Futures Commission for the opportunity to comment on the proposed mandate for the inclusion of LEIs in the reporting of OTC derivatives to the HKTRs.

DTCC is supportive of the proposed LEI requirement in Hong Kong, in line with the international framework agreed by CPMI-IOSCO and supported by the FSB. DTCC is also supportive with the proposed implementation time lines phased by entity types.

DTCC as the operator of a Trade Repository ("TR") in its Global Trade Repository ("GTR") business, and as a Local Operating Unit ("LOU") in the Global LEI System ("GLEIS") in its GMEI utility business, is supportive of the mandate for LEIs, and put forth the following comments:

- DTCC views the adoption of LEIs in Hong Kong as in keeping with original LEI ROC principle of a unique standardized identifier for parties of financial transactions as a tool in mitigating systemic risk across regulatory regimes. The HKMA and SFC's mandate for LEIs in OTC derivatives is in furtherance of the goal of building a robust risk framework across jurisdictions and asset classes.
- While the industry is adopting the LEI in its own risk management processes, in order for these benefits to be fully realized, regulatory mandates are needed to require all counterparties on financial transactions to register for LEIs, maintain the reference data within the GLEIS and include LEIs for themselves and their counterparties in mandated regulatory reporting.
- With the extra-territorial impact of regulations such as ESMA's MiFID II LEI mandate impacting certain HK entities (over 4,200 HK-based legal entities have registered for LEIs), the use of LEIs for HK OTC derivatives where parties are impacted by multiple reporting requirements works to reduce the burden of maintaining multiple identifiers. The ability to standardize on a single referential value from account creation through reporting facilitates the reduction in the overall operational effort to upkeep and pass the information within a firm's systems.
- The use of LEIs as the sole entity identifier on OTC derivatives reporting provides an additional element by which trade matching and reconciliation can be facilitated. The LEI, as a unique identifier, if utilized during reconciliation exercises, could speed the identification of trade breaks, reducing time and overall exception processing.
- The furtherance of LEIs as the standard entity identifier within a firm's systems and processes, has the ability to provide additional operational benefits beyond risk monitoring. The unique identification of an entity and the attributes provided within an LEI record have been noted to provide time savings and data rigor in the seeding of records during the client onboarding and vendor management processes.

**Q1: 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.**

DTCC is supportive on the proposal to mandate the use of LEIs.

In order to extract the full benefit of the use of the LEI, we would suggest that the regulatory framework adopt the recommendations issued by the LEI ROC<sup>1</sup> with regard to requiring the use of LEIs that are 'current' within the reporting framework<sup>2</sup>.

From a technical implementation perspective, we would suggest guidance be given around whether the HKTR will seek to introduce a validation on the submitted LEIs. If indeed the LEI will be validated, whether the validation will only seek to confirm the LEI code complies with the allocation scheme<sup>3</sup>, or whether it will also verify its status.

**Q2: 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.**

DTCC is supportive of the proposed implementation timelines.

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<sup>1</sup> Progress report by the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC) "[The Global LEI system and regulatory uses of LEI](#)", November 2015.

<sup>2</sup> 'Current' status can be defined as an LEI which is included in the GLEIF database maintained by the Central Operating Unit, and where the status of the LEI is "Issued", "Pending transfer", or "Pending archival."

<sup>3</sup> Compliant with the International Organisation for Standardisation norm ISO 17442:2012