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27 April 2018

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 Sirs/Mesdames,

LCH Group ('LCH' in the context of this letter) is majority owned by the London Stock Exchange Group ('LSEG'), a diversified international exchange group that sits at the heart of the world's financial community. LCH operates leading multi-asset class and international clearing houses, which serve major international exchanges and platforms, as well as a range of OTC markets. LCH clears a broad range of asset classes including cash equities, exchange traded derivatives, commodities, interest rate swaps, credit default swaps, bonds, repos, and foreign exchange derivatives.

In this context, LCH welcomes the opportunity to respond to the Hong Kong Monetary Authority ('HKMA') and Securities and Futures Commission ('SFC') 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 published in March 2018 (the 'Consultation paper').

We support the HKMA and SFC's efforts and would like to emphasise the need to ensure international consistency with the requirements adopted by other regulators around the globe, e.g. in Australia, the European Union, Japan, Singapore and the United States. This would ensure more efficient international markets and clearing services, in particular given the interaction between trading obligations and clearing obligations in a number of jurisdictions.

We hope that the HKMA and the SFC will find this submission useful and we look forward to engaging further. Should you have any questions on the response or wish to discuss it in detail,

LCH

please do not hesitate to contact

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7426 7001 | lch.com** LCH Group Holdings Limited | LCH Limited | Banque Centrale de Compensation | LCH.Clearnet LLC
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Specific Comments

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.

LCH welcomes the HKMA and SFC Proposal to mandate the use of Legal Entity Identifiers ('LEI'). This Proposal is in line with the approach of other jurisdictions around the globe. We also welcome the fact that this obligation only applies to trades reported after the implementation dates unless there are subject to a life cycle event.

LCH uses LEI for the reporting of Counterparty data in all instances where it is available (for e.g. trade party ID, reporting ID, payers ID) and would welcome being able to use it more widely as reporting entities, transactions parties, HKTR members, CCPs and providers of clearing services are required to be identified by LEIs.

LEIs allow for a greater transparency and traceability of transactions and counterparties and therefore reinforces risk management efficiencies and effectiveness for all parties to a trade. We are therefore fully supportive of the HKMA and SFC's approach to mandate its use.

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.

LCH does not expect specific difficulties in adopting the use of LEIs in OTC derivatives trade reporting according to the proposed timelines.

However, this is subject to the absence of any requirement to 'validate' the LEI 'Registration Status'. Imposing the rejection of reports based on the LEI 'Registration status' (for example, on the ground that the LEI submitted is 'Lapsed' or 'Expired') would significantly complicate the CCP's task, as there are necessarily delays in the reference data being passed up the chain from the Client to the Clearing broker and then on to the CCP.

LCH would suggest that the submission of a valid LEI should be sufficient to avoid rejections.

Q3. Do you have any comments or concerns about our proposal to include the full range of IRS denominated in AUD under Phase 2 Clearing, i.e., fixed-to-floating swap, basis swap and OIS? If you do, please provide specific details.

LCH agrees with the scope of the proposed extension of the clearing obligation to include AUD IRS and welcome the HKMA and SFC's approach to ensure – in addition to the technical assessment conducted – consistency with the scope of clearing obligations adopted in other jurisdictions, including the United States, the European Union and Australia.

We also support the HKMA and SFC's proposal to ensure market participants' readiness before the entry into application of these requirements.



Q4. Do you have any comments or concerns about our proposal not to introduce new products for Phase 2 Clearing other than IRS denominated in AUD? If so, please provide specific details.

Q5. Do you have any comments or concerns about our proposal to maintain the current scope of Prescribed Person? If you do, please provide specific details.

Q6. Do you have any comments or concerns about our proposal to maintain the FSP criteria? If you do, please provide specific details.

Q7. Do you have any comments or concerns on our proposed revised FSP list? If you do, please provide specific details.

Q8. Do you have any comments or concerns about our approach to annually updating the FSP list and the exit mechanism from the FSP list? If you do, please provide specific details.

Q9. Do you have any comments or concerns regarding our proposal to maintain the Clearing Threshold and the calculation method of outstanding positions to be measured against the threshold? If you do, please provide specific details.

Q10. Do you have any comments or concerns regarding our proposal to maintain the current frequency of two Calculation Periods in a year and the length of three consecutive calendar months for each Calculation Period?

Q11. Do you have any comments or concerns regarding our proposal to add the eight additional Calculation Periods? If you do, please provide specific details.

Q12. Do you have any comments or concerns regarding our proposed trading determination process and criteria? If you do, please provide specific details.

LCH supports the HKMA and SFC's intention to consult the market on the feasibility, scope and timing for implementing a platform trading obligation in Hong Kong. We agree with the factors put forward including the fact that any trading obligation should look to ensure international consistency with the requirements adopted by other regulators around the globe, for e.g. the United States CFTC and EU MiFIR regimes. This would ensure more efficient international markets and clearing services, in particular given the interaction between trading obligations and clearing obligations in a number of jurisdictions.

In addition, and in line with the HKMA and SFC's approach for the clearing obligation, we agree that the implementation of the trading obligation requirements should be timed in such a way as to allow market participants to make arrangements to access relevant trading venues, both in Hong Kong and overseas.