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Joint consultation paper on enhancements to the OTC derivatives regulatory regime for Hong Kong to – (1) mandate the use of Unique Transaction Identifiers for the reporting obligation, (2) revise the list of designated jurisdictions for the masking relief of the reporting obligation and (3) update the list of Financial Services Providers under the clearing obligation (April 2019)

IHS Markit (Nasdaq: INFO) is pleased to provide its comments regarding the above consultation paper (CP).

I. Introduction

IHS Markit is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

A subsidiary of IHS Markit, MarkitSERV provides end-to-end multi-asset trade processing and workflow solutions that support all participants in OTC trading from post-trade notices of execution, trade confirmation and allocations to clearing and reporting. This helps market participants minimise cost and complexity by integrating processes along the OTC transaction lifecycle from post-trade notification and confirmation, to allocations and clearing and regulatory reporting.

II. Summary

We support the Financial Stability Board's effort to introduce standards and consistency in the use of Unique Transaction Identifiers (UTI) and to avoid proliferation of multiple trade identifiers for individual transactions. In summary, our main messages to the HKMA and SFC are that:

1. IHS Markit generally supports the proposed approach and stands ready to provide UTI and unmasking services where required and appropriate;
2. although we support the requirement for a new UTI in specific lifecycle events, flexibility should be ensured so that the process to correct errors does not lead to the requirement for a new UTI; and
3. unmasking for non-live legacy contracts would be onerous to perform and would not provide regulators with additional useful information.

III. Answers to CP Questions

Q1. Do you have any comments or concerns about our proposals to mandate the use of UTIs in OTC derivatives trade reporting, in particular, the interim measure and to allow counterparties to bilaterally agree on the responsibility to generate a UTI prior to adopting the list of factors recommended in the Technical Guidance? If you foresee any operational difficulties in implementing the proposals, please provide specific details?

MarkitSERV is an essential service for our many clients in Hong Kong and their counterparties globally in processing confirming trades in OTC derivatives. We provide a flexible service and do not anticipate problems with the proposed approach which, after the implementation date, would only require a new UTI if: there is a new transaction; or, the existing transaction is split into different transactions (paras 26, 32). We also agree that a new UTI should be issued where there is a genuinely new counterparty (i.e. there is a new transaction), but it is important to allow for amendments based on erroneous information that may require adjustments to the counterparty happen without a new UTI, otherwise the impression of a new transaction could be given (rather than simply an error correction).

We note that the proposals state that counterparties should be able to agree bilaterally who will generate the UTI or, in the event that agreement cannot be reached, they should follow the factors to consider set out in Annex 1 of the CP (para 27). As a confirmation platform providing reporting services, MarkitSERV is a key piece of infrastructure that is able to produce UTIs. We would be able to provide such a service for any counterparties and, given our experience and expertise, believe that our service should ensure consistency and accuracy of UTIs for those we produce.

Q2. Will you have any difficulties adopting the use of UTIs in OTC derivatives trade reporting in the proposed timelines as stated above? If so, please provide specific details.

We believe the timetable is reasonable and achievable.

Q5. Do you have any comments or concerns about our proposed implementation timeline to gazette the revised Designated List no earlier than 1 October 2019? If so, please provide specific details.

As a service provider, we would not expect any significant problems with the proposed timeline given that the Designated List will not be revised prior to 1 October 2019 and that transactions which have matured, expired or been terminated before the end of the unmasking periods will not be required to be unmasked (paras 67-68). Any attempt to unmask non-live legacy transactions would be extremely burdensome and lead to little benefit for regulators (non-live legacy transactions means those that are no longer in force due to maturity, expiry or early termination). It is, therefore, important that the final requirements only lead to the unmasking of live trades.

Q6. Do you have any comments or concerns about our proposed snapshot approach to unmasking? If so, please provide the specific details of any operational difficulties you anticipate.

Generally, we believe the HKMA and SFC should be proportionate in their approach to unmasking transactions previously submitted to the HKTR. As has been argued by ISDA,¹ it will be a challenge to ensure consents are in place just for new transactions. Forcing a similar exercise for transactions previously submitted would be an even more difficult exercise. We believe that, although MarkitSERV is in a strong position to provide our clients with the services to unmask transactions, the process of identifying the relevant transactions and gaining any necessary consents would be extremely onerous. Such an exercise would provide regulators with little additional useful information to justify the compliance burden it would place on counterparties and service providers such as ourselves. We would therefore urge a proportionate approach to unmasking legacy transactions, ideally in line with the approach proposed for UTIs (where a new UTI is only required for new transactions or after specific life-cycle events) and not applied at all to non-live legacy transactions.

If the HKMA and SFC were to require unmasking takes place for transactions previously submitted, we would support the snapshot approach as set out in the

¹ <https://www.isda.org/a/JIREE/ISDA-Submission-to-FSB-Barriers-to-Reporting-Followup-20180713.pdf>

CP (para 71) as we agree a snapshot approach would be less burdensome than a life-cycle approach (para 72). We also appreciate the flexibility the CP proposes in allowing two different approaches to unmasking (para 73). However providing clients with the ability to adopt either of the two different approaches to unmasking would be problematic for service providers, such as IHS Markit, and they are unlikely to provide functionality for both options. Therefore, the final rules should reflect that the firms under an obligation to unmask should choose the method that suits them or use the solution that is most efficient for their service provider.

We hope that our comments are helpful to the HKMA and SFC. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. In the event you may have any questions, please do not hesitate to contact [REDACTED]

Yours faithfully,

[REDACTED]

Executive Director, Regulatory Affairs

IHS Markit

[REDACTED]