FEATURE ARTICLE

Results of surveys on selected debt securities and off-balance sheet exposures to derivatives and securitisations

by the Banking Policy Department

Authorized institutions' (AIs) holdings of selected debt securities at the end of June 2012 were maintained at a level similar to those of previous years. At the same time, changes in the composition of the holdings reflected a continuing preference among AIs for securities issued by sovereigns compared with other issuers. Derivatives activities grew moderately, particularly for foreign exchange contracts.

Enhancements to the capital framework for counterparty credit risk (CCR) exposures arising from over-the-counter (OTC) derivatives and securities financing transactions under Basel III[1] will be implemented in Hong Kong from 1 January 2013. Also, preparations continue on reform of the local regulatory framework for OTC derivatives activities.

Introduction

The HKMA introduced two half-yearly surveys, the Survey on Selected Debt Securities and the Survey on Off-balance Sheet Exposures in Derivatives and Securitisation Transactions, in November 2008 to help strengthen its oversight of the banking sector's exposure to structured credit products and OTC derivatives. The surveys collect data on AIs' exposures to selected debt securities and securitisation and derivatives transactions, including credit derivatives.

In total, 172[2] AIs participated in the Survey on Selected Debt Securities and 197[3] AIs participated in the Survey on Off-balance Sheet Exposures in Derivatives and Securitisation Transactions for the 6-month periods ended December 2011 and June 2012.[4] This article presents the results of the surveys, covering the reported exposures of the surveyed AIs at the end of the two periods.

Highlights of major findings

The surveys showed that:

1. The market value of the selected debt securities[5] held by the surveyed AIs decreased slightly to HK$1,716 billion at the end of June 2012 (3.1% lower than June 2011) primarily because of a reduction in the holdings of non-structured securities. The selected debt securities were held mainly for investment purposes.

2. Non-structured securities accounted for 96.4% of the debt securities held by the AIs. In line with the results published in the previous two years, most of the non-structured securities were issued by

[1] See "Basel III: A global regulatory framework for more resilient banks and banking systems" issued by the Basel Committee on Banking Supervision in December 2010 (updated in June 2011).

[2] Representing all licensed banks and restricted licence banks in Hong Kong of which the total assets at the end of June 2012, in the aggregate, accounted for 99.7% of the total assets of the banking sector.

[3] Representing all AIs (i.e. licensed banks, restricted licence banks and deposit taking companies) in Hong Kong.

[4] The results of the surveys conducted for the positions at the end of December 2010 and June 2011 were published in the *HKMA Quarterly Bulletin* in December 2011.

[5] Selected debt securities are debt securities other than Exchange Fund Bills and Notes, US Treasury bills, notes and bonds, and debt securities issued by multilateral development banks.

banks and sovereigns with investment-grade credit ratings. However, AIs' appetite for bank paper continued to decrease. Bank paper, which was redeemed or disposed of, was mostly replaced by sovereign and corporate paper.

3. AIs' holdings of structured securities[6] recorded a year-on-year growth of HK$6.9 billion (or 12.5%) to reach HK$62 billion at the end of June 2012, mainly driven by increased investment in mortgage-backed securities (MBSs) by a few AIs. Nevertheless, the holdings remained insignificant, representing only 0.8% of the total assets of the AIs holding the securities. Most of the structured securities (55.3%) were backed by residential mortgage loans. The proportion of securities backed by non-prime residential mortgage loans[7] further reduced to 3.7% (6.3% in June 2011).

4. AIs' derivatives activities (other than credit derivatives) continued to grow at a moderate rate, with the total notional amount standing at HK$58,271 billion at the end of June 2012, representing a year-on-year growth of 6.6%. This was mainly driven by an increase in foreign exchange contracts. Exchange rate and interest rate contracts accounted for 50.4% and 47.5% respectively of the total notional amount of outstanding derivatives (other than credit derivatives) held by AIs.

5. Continuing its downward trend, the total notional amount of credit derivatives further reduced to HK$469 billion at the end of June 2012, accounting for only 0.8% of all the outstanding derivatives contracts reported. The holdings of credit derivatives remained highly concentrated in a few AIs.

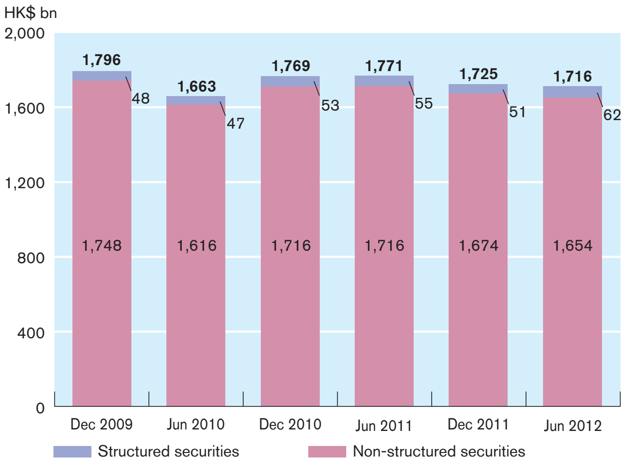
6. The off-balance sheet securitisation exposures of AIs, which mainly consisted of liquidity facilities, and interest rate and currency derivatives provided to securitisation transactions, remained minimal.

Details of major findings

Selected debt securities held

The aggregate market value of selected debt securities held by all surveyed AIs recorded a 3.1% year-on-year decline to HK$1,716 billion at the end of June 2012 (Chart 1). The decrease was generally due to a reduction in triple-A rated non-structured securities issued by banks and public sector entities, partially offset by an increase in single-A rated non-structured securities issued by sovereigns and banks. Despite some changes in debt holdings among individual AIs, the aggregate debt securities holdings of all surveyed AIs did not record any significant variation over the first half of 2012. The selected debt securities as a percentage share of the AIs' total assets decreased from 11.8% (June 2011) to 10.9% (June 2012), partly due to the higher growth of total assets. As in previous years, around 80% of the debt securities were held for non-trading purposes.

CHART 1
Market value of selected debt securities held by all surveyed AIs



[6] Structured securities include asset-backed securities (ABSs), mortgage-backed securities (MBSs), collateralised debt obligations (CDOs), notes issued by structured investment vehicles (SIV notes), asset-backed commercial paper (ABCP) and any other similar structured products, but exclude credit-linked notes.

[7] "Non-prime" refers to Alt-A and sub-prime, or their equivalents in the case of non-US markets.

Despite a year-on-year increase of 12.5%, AIs' holdings of structured securities remained small at HK$62 billion at the end of June 2012. None of the AIs with holdings in structured securities were the originators of those securities. The growth in holdings resulted mainly from an increase in investment in MBSs (mainly issued by Ginnie Mae) by a few AIs.

HK$1,256 billion, or 73.2% of the aggregate market value of the selected debt securities, were held by local banks[8] at the end of June 2012, 2.1% lower than the value reported a year ago. Of these, HK$38 billion were structured securities, representing an increase of HK$6 billion (or 17.1%) over the same period mainly due to new investments in MBSs issued by public bodies. Nevertheless, the holdings remained at a relatively low level of 9.9% of the aggregate capital base of the local banks concerned at the end of June 2012.

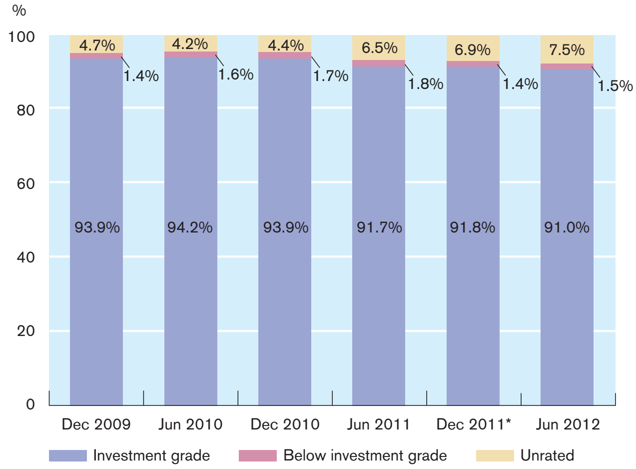
The following analysis illustrates the distribution of debt securities reported by the surveyed AIs:

Non-structured securities

By type of issuer or reference entity[9]:
The difference between the percentage shares of the two largest categories of issuer or reference entity (i.e. banks and sovereigns) continued to narrow. The respective shares of the banks category and the sovereigns category were 41.3% and 36.7% in June 2012, compared with 48.2% and 29.5% in June 2011 (Table 1). New debt securities acquired were mainly issued by corporates and sovereigns.

By credit quality:
AIs' holdings of non-structured securities continued to be of high credit quality, with 91.0% of the securities (91.8% in December 2011) having investment-grade credit ratings (Chart 2) and 80.7%

CHART 2
Percentage share by credit quality of non-structured securities



* Figures do not add up to 100% due to rounding.

TABLE 1
Percentage share by type of issuer or reference entity

	All surveyed AIs					
Issuer or reference entity	**Jun 2012**	**Dec 2011**	**Jun 2011**	**Dec 2010**	**Jun 2010**	**Dec 2009**
Sovereigns	36.7%	36.4%	29.5%	29.0%	23.7%	24.6%
Public sector entities	6.6%	7.2%	7.7%	8.0%	7.9%	6.7%
Banks	41.3%	41.7%	48.2%	49.1%	54.5%	54.5%
Non-bank financial institutions[10]	3.1%	3.5%	4.4%	4.9%	4.8%	4.4%
Investment funds and highly leveraged institutions (e.g. hedge funds)	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
Corporates	11.6%	10.4%	9.2%	8.4%	8.6%	8.0%
Others	0.7%	0.8%	0.9%	0.6%	0.5%	1.8%

8 Local banks refer to licensed banks incorporated in Hong Kong.

9 When the securities held by an AI are credit-linked notes or when the credit risk of the securities held by an AI is hedged by credit derivatives contracts, the AI is required to report the type of the reference entity of the credit-linked notes or credit derivatives contracts concerned instead of the type of the issuer of the securities.

10 Including securities firms, insurance companies, investment banks and fund houses.

(82.9% in December 2011) having a single-A rating or above. The main reason for the decrease in the latter was the disposal and redemption of debt securities with double-A rating or above, in particular those issued by banks or non-bank financial institutions, or those having banks or non-bank financial institutions as reference entities. Unrated debt securities held by the surveyed AIs were mainly issued by banks and corporates.

Structured securities

By type of product:

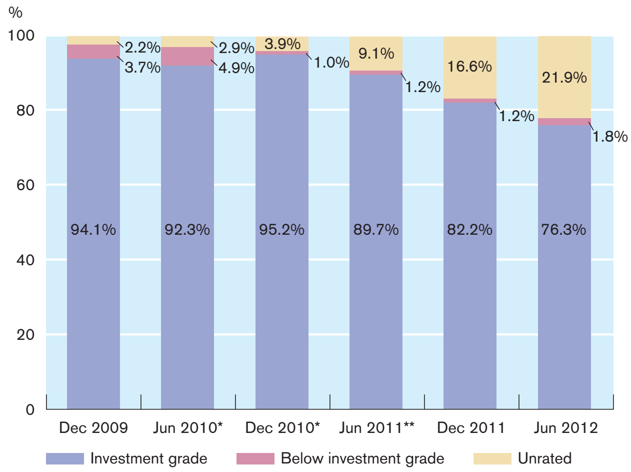
Only 26 of the 172 AIs participating in the survey had holdings in structured securities. In general, the holdings were in relatively simple securitisation products, such as MBSs (Table 2). AIs' investment in re-securitisation products remained insignificant. There was continued concentration of the holdings in a few AIs, with the top five (mainly local banks) accounting for 78.6% of the total market value of structured securities reported.

By credit quality:

The aggregate market value of structured securities having investment-grade credit ratings rose from HK$42 billion to HK$47 billion in the first half of 2012. However, during the same period, the share of such securities as a percentage of total structured securities held decreased to 76.3% from 82.2% (Chart 3). Similarly, the percentage share of structured securities with a single-A rating or above dropped to 75.6% (81.4% in December 2011). The decline in percentage share of investment-grade structured securities was primarily due to an increase in the holdings of unrated structured securities (mainly unrated MBSs issued by Ginnie Mae) from HK$8.4 billion to HK$13.5 billion during the first six months of 2012.

CHART 3

Percentage share by credit quality of structured securities



* Figures do not add up to 100% due to rounding.
** Revised figures.

TABLE 2

Percentage share by type of product

Structured product	All surveyed AIs					
	Jun 2012	Dec 2011	Jun 2011	Dec 2010	Jun 2010	Dec 2009
ABSs (including MBSs)	89.1%	87.2%	86.9%	86.0%	83.0%	74.8%
CDOs	6.2%	7.5%	7.1%	7.8%	9.9%	13.5%
SIV notes	3.1%	3.7%	4.1%	4.3%	4.9%	4.9%
Re-securitisation[11]	0.4%	1.0%	1.8%	1.9%	2.2%	6.4%
Sukuk	1.1%	0.5%	0.2%	0.1%	0.1%	0.3%
ABCP	–	–	–	–	–	–

Note: Figures do not add up to 100% due to rounding.

[11] Re-securitisation is defined in the survey as a transaction in which the underlying assets are mainly (50% or more) securitisation or structured products.

By underlying asset:

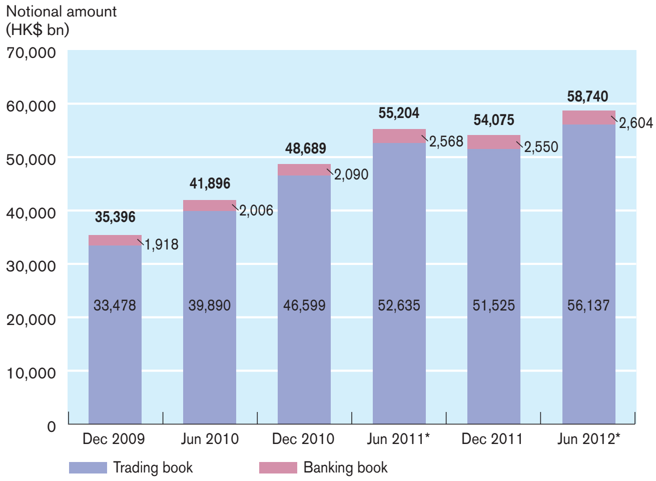
Residential mortgages (55.3%) remained the main type of asset underlying the structured securities held by AIs. New structured securities purchased by AIs were mainly backed by claims on public sector entities and residential mortgages. The percentage share of securities backed by residential mortgages has been trending downwards since June 2010, largely because the growth in such securities has been outpaced by the growth in securities backed by other types of asset, in particular, claims on public sector entities. AIs' indirect exposure to non-prime assets (mainly sub-prime residential mortgage loans) continued to decline, with the proportion reducing from 6.3% at the end of December 2011 to 4.2% at the end of June 2012 (Table 3).

Exposures in derivatives

Derivatives activities continued to grow moderately. The total notional amount of outstanding derivatives contracts held by all surveyed AIs at the end of June 2012 stood at HK$58,740 billion, representing a year-on-year increase of 6.4% (Chart 4). The growth was mainly driven by increased positions of some AIs in OTC foreign exchange contracts (mainly forwards and swaps). Most of the derivatives contracts were held for trading purposes, and the holdings were dominated by a small group of banks, with the positions of the top five AIs accounting for 70.5% of the total notional amount.

CHART 4

Derivatives contracts held by all surveyed AIs



* Figures do not add up to total due to rounding.

TABLE 3

Percentage share by type of underlying asset

Type of underlying asset	All surveyed AIs Jun 2012	Dec 2011*	Jun 2011	Dec 2010	Jun 2010	Dec 2009
Claims on sovereigns	1.2%	0.6%	0.2%	0.1%	0.2%	1.5%
Claims on public sector entities	17.8%	12.0%	4.5%	0.2%	0.3%	0.3%
Claims on banks	0.4%	0.5%	0.9%	1.1%	1.3%	3.0%
Claims on non-bank financial institutions	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%
Claims on corporates	0.6%	0.8%	1.6%	2.4%	3.0%	5.2%
Commercial mortgages	3.0%	4.3%	4.6%	5.1%	3.5%	4.8%
Residential mortgages	55.3%	58.1%	62.4%	62.9%	63.7%	55.5%
of which non-prime	3.7%	5.4%	6.3%	7.0%	8.6%	9.1%
Credit card receivables	11.6%	11.4%	10.1%	9.0%	9.1%	8.9%
of which non-prime	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other personal lending	3.4%	6.9%	9.7%	12.8%	11.6%	12.3%
of which non-prime	0.5%	0.9%	1.1%	1.5%	2.2%	2.8%
Others	6.6%	5.4%	5.8%	6.1%	7.0%	8.2%

* Figures do not add up to 100% due to rounding.

Of the total notional amount of outstanding derivatives contracts, 62.2% (or HK$36,527 billion) was held by local banks, which was 7.5% higher than at the end of June 2011. Much of the increase was attributable to a couple of local banks.

The following analysis illustrates the distribution of outstanding derivatives contracts reported by the surveyed AIs:

Type of product

Swaps and forwards remained the major types of OTC derivatives contracts held, representing 59.4% and 28.6% of the total notional amount of all derivatives contracts held at the end of June 2012 (Table 4) respectively. AIs' activities in exchange-traded derivatives remained minimal and the contracts traded were mainly interest rate contracts. Foreign exchange forwards continued to grow in proportion within the OTC derivatives portfolio.

Type of underlying risk

While interest rate risk and foreign exchange risk remained the two largest categories of underlying risk at the end of June 2012, for the first time since the survey began, the percentage share of foreign exchange risk (50.0%) exceeded that of interest rate risk (47.1%) (Table 5). However, as this was not observed as a common pattern at individual bank level, there is no evidence to suggest the changes in the percentage shares of the two categories of risk were due to a general change in AIs' risk appetite. Most derivatives contracts held by local banks were interest rate contracts (53.3%) and exchange rate contracts (42.7%).

TABLE 4

Percentage share by type of product

	All surveyed AIs					
Derivatives product	**Jun 2012**	**Dec 2011**	**Jun 2011****	**Dec 2010****	**Jun 2010**	**Dec 2009**
Exchange-traded derivatives	3.0%	3.2%	5.2%	5.2%	4.0%	3.3%
OTC derivatives	97.0%*	96.8%	94.8%*	94.8%*	96.0%*	96.7%*
of which						
Forwards	28.6%	27.9%	24.7%	25.1%	28.1%	23.7%
Swaps	59.4%	60.9%	60.4%	60.1%	56.5%	61.9%
Options	7.8%	6.7%	6.8%	5.7%	6.4%	5.2%
Credit derivatives	0.8%	0.9%	1.0%	1.2%	1.6%	1.9%
Others	0.5%	0.4%	2.0%	2.8%	3.5%	3.9%

* Figures do not add up to total due to rounding.
** Revised figures.

TABLE 5

Percentage share by type of underlying risk

	All surveyed AIs					
Underlying risk	**Jun 2012**	**Dec 2011***	**Jun 2011***	**Dec 2010***	**Jun 2010**	**Dec 2009**
Interest rate risk	47.1%	50.3%	53.5%	54.5%	52.2%	57.2%
Foreign exchange risk	50.0%	46.9%	43.4%	42.8%	44.4%	39.4%
Equity risk	2.0%	1.7%	1.7%	1.3%	1.7%	1.3%
Commodity risk	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%
Credit risk	0.8%	0.9%	1.0%	1.2%	1.6%	1.9%
Other risks	0.0%	0.0%	0.3%	0.1%	0.1%	0.1%

* Figures do not add up to 100% due to rounding.

Type of counterparty

Despite a mild downward trend in percentage share since December 2009, banks remained the most common type of counterparty in derivatives transactions, accounting for 56.6% of the total notional amount of derivatives contracts reported (Table 6). Ranking second were related parties of the AIs concerned (for example, parent banks), which represented 25.3% of total notional amount of derivatives contracts. The percentage share of non-bank financial institutions increased to 8.0% as more transactions were entered into with these institutions.

Credit derivatives

The credit derivatives positions of the surveyed AIs have been shrinking over the past three years and the total notional amount of outstanding credit derivatives further reduced to HK$469 billion at the end of June 2012 (Chart 5). The positions were held by 17 AIs (21 in June 2011), including three local banks (four in June 2011), with the top five AIs in aggregate accounting for 99.3% of the total notional amount. The contracts were held mainly for trading purposes.

CHART 5

Credit derivatives held by all surveyed AIs

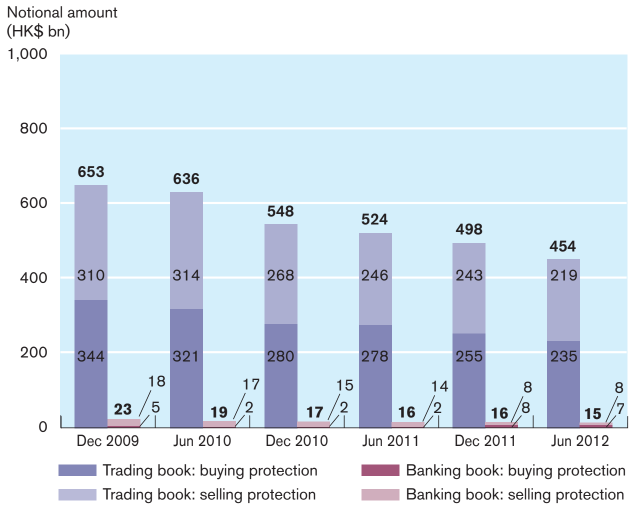


TABLE 6

Percentage share by type of counterparty

Counterparty	All surveyed AIs					
	Jun 2012	Dec 2011	Jun 2011	Dec 2010	Jun 2010	Dec 2009
Related parties	25.3%	25.4%	25.4%	25.4%	25.3%	25.1%
Independent parties	74.7%	74.6%*	74.6%	74.6%*	74.7%*	74.9%
of which						
Banks	56.6%	57.4%	57.8%	58.2%	60.1%	60.6%
Non-bank financial institutions	8.0%	7.1%	4.5%	4.5%	4.0%	4.0%
Investment funds and highly leveraged institutions	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Corporates	6.0%	5.9%	6.5%	5.0%	5.0%	5.0%
Others (e.g. individuals)	3.8%	4.1%	5.6%	6.8%	5.3%	5.1%

* Figures do not add up to total due to rounding.

Reference entity

By type:

Consistent with last year's observation, the main types of reference entity were corporates (47.0%), sovereigns (30.4%) and banks (13.9%) (Table 7). Any increase in the percentage shares of some of the categories (for example, banks) was merely due to a more gentle decrease in the notional amount of credit derivatives referenced to such entities when compared with derivatives referenced to other categories.

By credit quality:

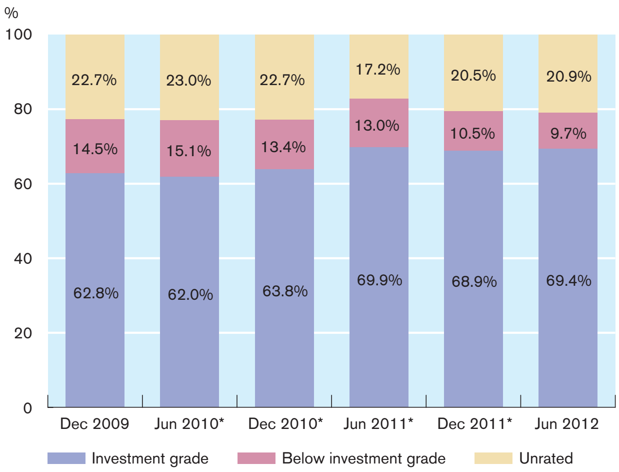
Looking at the composition of reference entities by credit quality, 69.4% (69.9% in June 2011) of the credit derivatives were linked to reference entities with investment-grade credit ratings (Chart 6) and 51.5% (49.6% in June 2011) to those with a single-A rating or above. The share of credit derivatives linked to non-investment grade reference entities as a percentage of the overall credit derivatives portfolio decreased year-on-year from 13.0% to 9.7% because they were reduced by a larger percentage than those linked to reference entities with investment-grade ratings or without ratings. Unrated reference entities were mainly corporates while those with non-investment grade ratings were mostly sovereigns.

Off-balance sheet securitisation exposures

Off-balance sheet securitisation exposures of the surveyed AIs remained minimal, with the aggregate amount being maintained at HK$4.0 billion at the end of June 2012 (HK$4.1 billion in June 2011). The exposures were mainly held by a few AIs in the form of liquidity facilities, and interest rate and currency derivatives provided to securitisation transactions.

CHART 6

Percentage share by credit quality of reference entity



* Figures do not add up to 100% due to rounding.

Conclusion

No significant change was observed in AIs' holdings of selected debt securities and derivatives activities in the 12-month period ended June 2012. AIs' holdings of structured debt securities and credit derivatives remained minimal. In 2013, a series of regulatory reform measures for the OTC derivatives market will come into effect. These measures might have a bearing on AIs' business strategies and risk appetite for their derivatives activities. The HKMA will continue to monitor developments through the two half-yearly surveys.

See separate box on regulatory developments.

TABLE 7

Percentage share by type of reference entity

	All surveyed AIs					
Reference entity	**Jun 2012**	**Dec 2011**	**Jun 2011**	**Dec 2010**	**Jun 2010***	**Dec 2009**
Sovereigns	30.4%	27.2%	28.9%	25.8%	24.9%	23.0%
Public sector entities	0.4%	0.3%	0.3%	0.3%	0.3%	0.6%
Banks	13.9%	12.7%	13.8%	12.9%	12.1%	11.6%
Non-bank financial institutions	5.5%	5.7%	6.0%	5.9%	6.5%	8.6%
Investment funds or highly leveraged institutions	–	–	–	–	–	–
Corporates	47.0%	51.5%	50.9%	55.1%	56.1%	52.7%
Tranches of MBSs, ABSs or CDOs	2.8%	2.6%	–	–	–	–
Others	0.0%	0.0%	0.1%	0.0%	0.0%	3.5%

* Figures do not add up to 100% due to rounding.

Regulatory developments

The first phase of Basel III implementation, scheduled to commence from 1 January 2013, according to the timetable set by the Basel Committee on Banking Supervision (BCBS), includes enhancements to the regulatory capital framework for counterparty credit risk (CCR) exposures arising from over-the-counter (OTC) derivatives and securities financing transactions. Under the enhanced CCR framework, all banks will be required to provide a credit valuation adjustment (CVA) capital charge for OTC derivatives that are not cleared through central counterparties (CCPs). The interim rules for the capitalisation of bank exposures to CCPs issued by the BCBS in July 2012, which form part of the enhanced CCR framework, also require banks to hold regulatory capital for their trade exposures to transactions cleared by CCPs and for their default fund contribution made to CCPs. A preferential risk-weight of 2% can be allocated to trade exposures to CCPs that meet certain eligibility criteria (qualifying CCPs). The interim rules, together with the new CVA capital charge, are expected to provide incentives for banks to clear their OTC derivatives through qualifying CCPs. The interim rules are scheduled to come into effect from 1 January 2013.

The HKMA will implement the new capital requirements discussed above in Hong Kong also from 1 January 2013 in line with the BCBS' timetable and has already incorporated the requirements in the Banking (Capital) (Amendment) Rules 2012.

To implement the commitment by G20 Leaders in September 2009[12] for OTC derivatives transactions, the HKMA and the Securities and Futures Commission (SFC) are working closely to strengthen the regulatory framework and infrastructure for OTC derivatives activities in Hong Kong. A joint consultation on the proposed regulatory regime was conducted by the HKMA and the SFC in October 2011 covering:

- the division of regulatory responsibility between the HKMA and the SFC
- the mandatory reporting of OTC derivatives transactions to a trade repository to be set up by the HKMA
- the mandatory clearing of eligible OTC derivatives transactions through designated CCPs
- the OTC derivatives products that will be subject to the mandatory reporting and clearing obligations at the initial stage of implementation.

The joint consultation conclusions were issued on 11 July 2012. In general, respondents were supportive of the proposed regulatory regime. After taking into account the comments received, the HKMA and the SFC proposed in the consultation conclusions to modify the scope of the mandatory reporting and clearing obligations, including the definitions of "Hong Kong nexus" and "origination and execution". On the same date, a supplemental consultation was launched on the proposals relating to the new regulated activities of the

[12] The G20 Leaders' September 2009 Communique called for (i) all standardised OTC derivatives contracts to be traded on exchanges or electronic trading platforms, where appropriate, and cleared through CCPs by the end of 2012 at the latest; (ii) all OTC derivatives contracts to be reported to trade repositories; and (iii) non-centrally cleared contracts to be subject to higher capital requirements.

provision of dealing, advising and clearing agency services for OTC derivatives transactions, and on the oversight of systemically important players. The supplemental consultation period ended on 31 August and the response is now being considered. The HKMA and the SFC are working towards introducing a bill for the implementation of the proposed regulatory regime into the Legislative Council (LegCo) in early 2013. The detailed technical requirements for the operation of the new regulatory regime are proposed to be set out in subsidiary legislation in the form of rules. The HKMA and the SFC aim to conduct a public consultation on the draft subsidiary legislation shortly. Subject to the passage of the relevant legislation by LegCo, the new regulatory regime is expected to take effect before the end of 2013.

Hong Kong Exchanges and Clearing Limited is tentatively planning to launch central clearing services for OTC derivatives transactions in early 2013. Market participants may use the services on a voluntary basis before mandatory central clearing of transactions is implemented in Hong Kong when the new regulatory regime comes into effect.

In addition to the mandatory central clearing of OTC derivatives transactions, other regulatory developments are also expected to have a bearing on AIs' OTC derivatives activities. These include

(a) the anticipated forthcoming standards on margin requirements for non-centrally-cleared derivatives following the consultation conducted by the BCBS and the International Organization of Securities Commissions in July 2012 (the consultation period ended on 28 September). The consultative document presents initial policy proposals on minimum standards for margin requirements for non-centrally cleared derivatives transactions with the aim of reducing systemic risk and promoting central clearing; and

(b) the anticipated forthcoming guidance on the cross-border application of certain swaps provisions of the Commodity Exchange Act (CEA) following the consultation conducted by the US Commodity Futures Trading Commission (CFTC) in July 2012. Under the proposed guidance, non-US persons must register with the CFTC as a swap dealer or major swap participant under the CEA if the level of these persons' relevant swap dealing activities or swap positions with US persons exceeds certain thresholds. Once registered, these non-US persons will become subject to the relevant entity-level and transaction-level requirements under the Dodd-Frank Act. The effect of these requirements, therefore, extends to OTC derivatives transactions conducted outside the US by non-US persons and may have pronounced extra-territorial implications for financial institutions in other jurisdictions, including AIs in Hong Kong. As a result, the HKMA, together with the SFC and regulators in Singapore and Australia, issued a joint response to the CFTC to express common concerns over the significant extra-territorial implications of the CFTC's proposed guidance. The regulators in Hong Kong are continuing to discuss the issue with the CFTC.