HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B9/135C

27 April 2017

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

OTC Derivative Transactions – Phase 2 Reporting

As you are aware, mandatory reporting requirements under the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) (Amendment) Rules 2016 will take effect from 1 July 2017. In response to enquiries from the industry, we would like to clarify the expectations of the HKMA with regard to preparatory work, testing and contingency planning for compliance with the reporting requirements set out in the Rules, in particular with regard to those entities intending to report via an agent. This letter should be read in conjunction with the HKMA's letter of 27 January 2017, which set out the training and testing requirements for the use of the electronic reporting system (copy attached).

Reporting directly to the HKTR

Regulated entities[1] that intend to report directly to the Hong Kong Trade Repository (HKTR), apart from fulfilling other requirements of the HKTR, these entities are required to complete a simulation test, including a scenario test and a product specific test if they have not already done so, on or before 31 May 2017 so that reporting of OTC derivative products as required under Phase 2 can be accepted.

[1] A regulated entity means the following prescribed persons under the Reporting Rules:
(a) an authorized financial institution (AI), (b) an approved money brokers (AMB), (c) a licensed corporation (LC), (d) an RCH and (e) an ATS-CCP.

Reporting via an agent

Entities intending to report via an agent are reminded that the reporting obligation rests with the regulated entity. AIs using an agent are expected to take all reasonable measures to ensure that such reporting meets the requirements under the Rules. In particular, AIs should:

(a) make all necessary arrangements to provide all relevant information where applicable to the agent in the form required to enable the agent to report to the HKTR on the AI's behalf, and ensure that such arrangements are effectively and comprehensively tested in good time for the commencement of reporting;

(b) require the agent to make all necessary arrangements to report to the HKTR and conducts effective and comprehensive testing of such arrangements in compliance with all requirements of the HKTR and within the timeframe set by the HKTR;

(c) conduct adequate due diligence on the agent's business continuity and other back-up arrangements in case of any disruption to its reporting services arising from any cause;

(d) establish a direct channel to the HKTR using the technical options available[2]. When an entity (whether reporting directly or via an agent) has signed up for the reporting service and fulfilled all the membership requirements of the HKTR, the entity will have a channel to the HKTR for (i) submission of trade events (User Interface upload), (ii) enquiries about details of trades and trade events; and (iii) accessing reports (e.g. uncertain unlink and discrepancy reports) and receiving notifications etc. Entities reporting via agents, may also use this channel to send transaction reports (conforming to the requirements of the HKTR) directly to the HKTR in case problems are encountered with reporting via the agent that cannot be addressed quickly under the agent's business continuity or other arrangements;

(e) complete a scenario test (i.e. part 1 of simulation test) with the HKTR if they have not already done so, on or before 31 May 2017. Entities that have already completed this test during Phase 1 reporting and/or Interim Reporting are not required to do it again; and

(f) consider completing a product specific test (i.e. part 2 of simulation test). In particular, entities which have decided to perform direct reporting as a contingency plan in the event of any problem with reporting via their

[2] HKTR will provide information on these options on request.

agents are highly encouraged to complete a product specific test on or before 31 May 2017.

AIs that report via an agent will not be expected to have fully functioning arrangements to report directly in the event of difficulties occurring with reporting via the agent that could not be foreseen before commencement of reporting under the Rules. In other words, such AIs are not expected to duplicate entirely the systems and services that they have contracted with the agent to provide. However, in the event that such difficulties occur, the HKMA will consider whether the AI has taken reasonable steps to comply with the preparatory work, testing and due-diligence requirements set out above.

Please contact the HKTR on (852) 8100 3115 or email to hktr@hkma.gov.hk for any enquiries about this letter.

Yours faithfully,

Trevor Keen
Head
(Financial Market Infrastructure Oversight and Licensing Division)

Encl.