Appendix 1

Examples illustrating reporting obligations in relation to interbranch and novation transactions

Under the interim reporting requirements, interbranch transactions that are principal-to-principal in nature and are conducted between branches of the same bank are not reportable. These include trades conducted for the purpose of transferring risks of a transaction (or a portfolio of transactions) from one branch to another (and cover back-to-back transactions).

If however an interbranch transaction involves the transfer of booking, of an original trade involving an external customer, into or out of the Hong Kong branch of the reporting bank, the transaction may be reportable provided that the other prescribed criteria for reporting (as set out in paragraph 5 of the Annex) are also met.

Some examples illustrating the reporting obligations in relation to interbranch and novation transactions are set out below.

Case	Nature of Transaction	Reporting obligation
1	A transaction between the dealing desk and the marketing desk within the Hong Kong branch of a bank[1]	An intrabranch transaction is not reportable.
2	An overseas branch of a bank conducts an OTC derivative transaction with the Hong Kong branch of the same bank for the sake of centralised risk management.	Not reportable because the transaction represents a proprietary trade between different branches of the same bank.
3a.	An overseas branch of a bank conducts an OTC derivative transaction with an external customer. It then conducts a back-to-back transaction with its Hong Kong branch for the purposes of risk transfer.	This example is a subset of Case 2. Therefore the back-to-back transaction is also not reportable by the Hong Kong branch.
3b.	The Hong Kong branch of a bank conducts an OTC derivative transaction with an external customer. It then conducts a back-to-back transaction with an overseas branch of the same bank for the purposes of risk transfer.	The original transaction may be reportable if the prescribed reporting criteria are met. The back-to-back transaction is also not reportable for the same reason as Case 2.
4.	Original Trade: London branch of Bank A vs Hong Kong branch of Bank B Novation: London branch of Bank A novates the contract of the original trade to its Hong Kong branch.	The novation results in a contract between the Hong Kong branch of Bank A and another licensed bank. Assume other reporting criteria are met, the novated transaction is reportable by the Hong Kong branch of Bank A. The novation will not affect the

[1] Banks in the examples all refer to licensed banks.

		reporting obligation of the Hong Kong branch of Bank B.
5.	Original Trade: Hong Kong branch of Bank A vs Hong Kong branch of Bank B (assume this trade is reportable) Novation: Hong Kong branch of Bank A novates the contract of the original trade to one of its overseas branches.	After novation, the Hong Kong branch of Bank A should report termination of the transaction to the HKMA-TR (because the transaction is no longer booked in the Hong Kong branch). The transaction remains reportable by the Hong Kong branch of Bank B.
6.	Original trade: Overseas branch of Bank A vs a non-bank corporation Novation: Overseas branch of Bank A novates the contract of the original trade to its Hong Kong branch	The novation results in a transaction being booked in the Hong Kong branch of Bank A with the counterparty being a non-bank corporation. Since the other counterparty to this transaction is not a licensed bank, the novated trade is not reportable by the Hong Kong branch of Bank A.
7.	Original trade: Hong Kong branch of Bank A vs a non-bank corporation Novation: The corporation novates the contract of the original trade to an overseas branch of Bank B.	This case should be rare though theoretically possible. The novation results in the corporation withdrawing from the transaction and it requires an agreement between all three parties (i.e. Bank A, Bank B and the corporation) before this can happen. After novation, the transaction becomes reportable by the Hong Kong branch of Bank A as the counterparty to the transaction becomes another licensed bank, provided that other prescribed reporting criteria are met.
8.	Original trade: Overseas branch of Bank A vs a non-bank corporation Novation: The corporation novates the contract of the original trade to the Hong Kong branch of Bank B	Again this case should be rare. The novation results in a transaction being booked in the Hong Kong Branch of Bank B with the other counterparty being Bank A. Therefore it is reportable by the Hong Kong branch of Bank B. The transaction is still not reportable by Bank A because it is not booked in its Hong Kong branch.

<u>Appendix 2</u>

List of Mandatory Reporting Fields and Reportable Trade Events[1]

Section A: List of mandatory reporting fields
(1) for IRS (interest rate swap)

- Asset Class
- Central Counterparty ID (*required only if the trade is subject to central clearing*)
- Confirmation Platform ID
- CP Trade Reference (*required only if the trade is matched on an electronic confirmation platform*)
- Product Type
- Product Sub-Type
- Trade Party 1 (ID Type, ID, Name)
- Trade Party 2 (ID Type, ID, Name)
- Fixed / Floating Rate Payer Participant (ID Type, ID, Name)
- Floating / Floating Rate Payer Participant (ID Type, ID, Name)
- Notional Amount (Currency, Amount)
- Trade Date, Post Trade Trade Date
- Fixed / Floating Leg Effective Date (Unadjusted Date, Business Day Convention)
- Fixed / Floating Leg Termination Date (Unadjusted Date, Business Day Convention)
- Fixed Rate
- Floating Rate Index
- Floating Rate Tenor
- Floating Rate Spread
- Industrial Sector[2]
- Counterparty Industrial Sector (see footnote 2 in this <u>Appendix</u>)
- Clearing
- UTI Indicator & UTI (*required only if such information is available*)
- Submitting Party (ID Type, ID)
- Reporting Party (ID Type, ID)
- Reporting For (ID Type, ID, Name)
- Action
- Trade Event
- Event Request ID

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[1] This Appendix provides a list of mandatory reporting fields and trade events required to be reported. The detailed technical requirements are set out in the *OTC Derivatives Trade Repository Reporting Service Reference Manual* and *Hong Kong Trade Repository Administration and Interface Development Guide – Reporting Service*. Both documents can be accessed via the following link:- *http://www.hkma.gov.hk/eng/key-functions/international-financial-centre/infrastructure/otc-derivatives-trade-repository.shtml#trade-reporting-service*

[2] "Industrial Sector" and "Counterparty Industrial Sector" are designated as mandatory reporting fields as per the CPSS-IOSCO standards. These fields are intended to identify whether the counterparties to a transaction are corporations or individuals. The fields will be more relevant and useful when the full scope of reporting requirements is implemented after the interim reporting phase (i.e. the reporting obligations will be applicable to persons other than licensed banks).

- Backloading Date
- User / Agent Event Reference
- User / Agent Trade Reference
- User / Agent / TR Trade Reference / UTI (post trade correlation)

(2) for NDF (non-deliverable forward)

- Asset Class
- Central Counterparty ID (*required only if the trade is subject to central clearing*)
- Confirmation Platform ID
- CP Trade Reference (*required only if the trade is matched on an electronic confirmation platform*)
- Product Type
- Product Sub-Type
- Trade Party 1 (ID Type, ID, Name)
- Trade Party 2 (ID Type, ID, Name)
- Exchange Currency 1 Payer (ID Type, ID, Name)
- Exchange Currency 2 Payer (ID Type, ID, Name)
- Settlement Currency
- Trade Date, Post Trade Trade Date
- Exchange Currency 1 (Currency, Amount)
- Exchange Currency 2 (Currency, Amount)
- Exchange Rate
- Exchange Rate – Quoted Currency Pair Quote Basis
- Exchange Rate – Quoted Currency Pair Currency 1
- Exchange Rate – Quoted Currency Pair Currency 2
- Value Date
- Fixing Date
- Industrial Sector (see footnote 2 in this Appendix)
- Counterparty Industrial Sector (see footnote 2 in this Appendix)
- Clearing
- UTI Indicator & UTI (*required only if such information is available*)
- Submitting Party (ID Type, ID)
- Reporting Party (ID Type, ID)
- Reporting For (ID Type, ID, Name)
- Action
- Trade Event
- Event Request ID
- Backloading Date
- User / Agent Event Reference
- User / Agent Trade Reference
- User / Agent / TR Trade Reference / UTI (post trade correlation)

Section B: List of reportable business events for IRS and NDF[1]

Reportable business events	Explanation / Remarks
New Trade	This event will be triggered when the reporting bank enters into a new reportable transaction, including one newly transferred into the Hong Kong office/branch of the reporting bank.
Amendment	This event will be triggered whenever any amendment is made to any mandatory reporting field of any reported reportable transaction.
Full Termination[2]	This event will be triggered when a reportable transaction is terminated (which includes termination due to novation).
Partial Termination[2]	This event will be triggered when part of a reportable transaction is terminated (which includes termination due to novation). This event is not applicable to NDF trades.

Notes:

1. Apart from templates for reporting specified business events, there are templates for initiating specified administrative events, for example, for backloading outstanding transactions and for maintaining transactions reported to the HKMA-TR. Please refer to *Operating Procedures for Hong Kong Trade Repository Reporting Service* for details.

2. Reporting of trade novations:

    - for a full novation, use the Full Termination event or an Amendment event (with a zero notional amount) to terminate the old trade, followed by a New Trade event for the new trade created;
    - for a partial novation, use the Partial Termination event or an Amendment event (with the reduced notional amount) to reduce the amount of the old trade, followed by a New Trade event for the new trade created.

<u>**Appendix 3**</u>

<u>Summary of Transitional Arrangements for Reporting of OTC Derivative Transactions</u>

Reportable transactions conducted (1) before, but remain outstanding at the day-end of, 5 August 2013 or (2) between 5 August and 8 December 2013	**Reportable transactions conducted from 9 December 2013**
• Except for matured or fully terminated transactions, trade reports for the transactions are required to be made no later than 4 February 2014 in the following manner:- (i) where the reports are made between 5 August 2013 and 8 December 2013, the reporting bank is required to include the day-end positions as of the reporting date only. In other words, it is not necessary to report historical business events that happened before the reporting date; (i) where the reports are made between 9 December 2013 and 4 February 2014, the reporting bank is required to include both the day-end positions as of 9 December 2013 and all business events subsequent to 9 December 2013 up to the reporting date. • Once the reporting referred to above is completed, any subsequent	• Reporting of the transactions, and any post-trade business events, should be reported within two business days of the occurrence of the transactions or events, as the case may be.

business events of the reported transactions should be reported within two business days of the occurrence of the business events.	

Guidance on reporting error correction during interim reporting arrangement

1. Within 2 business days from the identification of an error in the reports submitted to the HKMA-TR, the reporting bank should take action allowed in this appendix to correct the error.

2. Reporting error correction by both the snapshot approach (i.e. amendment of only the latest position) and the life-cycle approach (i.e. amendment of all events with errors reported to the HKMA-TR) are acceptable.

3. The application of the snapshot approach and the life-cycle approach will be illustrated with reference to the example below:

   Example
   A trade entered into between bank A and B was reported to the HKMA-TR correctly on 1 Jan. On 1 Feb, a business event of partial termination happened. The resultant amount of the transaction was reported correctly by bank A but not bank B. On 1 Mar, further partial termination happened (last business event). The error of bank B started on 1 Feb carried through to this date. The error was eventually identified by bank B on 1 April.

(A) Snapshot Approach

(1) By Amendment

4. Bank B may adopt the snapshot approach to correct the reporting error by amendment, provided that the reporting error is unrelated to the following data fields: *Asset Class, Product Type, Product Sub-Type, Reporting For, Trade Party 1, Trade Party 2, Trade Date, Notional Amount-Currency, Floating Rate Payer, Fixed Rate Payer, Floating Rate Payer1, Floating Rate Payer 2, Exchange Currency 1-Payer Party, Exchange Currency 2-Payer Party, Exchanged Currency 1-Payment Amount-Currency, Exchange Currency 2- Payment Amount-Currency.* Under this method, Bank B shall update either the latest position (1 Apr) or the latest event position (1 Mar) by amendment.

5. The result of updating the latest position is as follows:

	1 January	1 February	1 March	1 April
Bank A	USD 100	USD 90	USD 80	
Bank B	USD 100	USD 95	USD 85	**USD 80***

*Amended position (*Trade date: 1 Jan; Agreement date: 1 Apr (date of the latest position) and Notional: USD 80*)

6. The result of updating the last event position is as follows:

	1 January	1 February	1 March
Bank A	USD 100	USD 90	USD 80
Bank B	USD 100	USD 95	**USD 80***

*Amended position (*Trade date: 1 Jan; Agreement date: 1 Mar (date of the last business event) and Notional: USD 80*)

(2) By Replacement

7. Alternatively, Bank B may adopt the snapshot approach to correct the reporting error by replacement. This method can be applied to all data fields. Under this method, Bank B shall withdraw the original transaction and report a new transaction by a backload event with either the latest position (1 Apr) or the last event position (1 Mar).

8. The result of loading the latest position is as follows:

	1 January	1 February	1 March	1 April
Bank A	USD 100	USD 90	USD 80	
Bank B	-	-	-	**USD 80***

*Newly reported transaction (*Trade date: 1 Jan; Backloading date: 1 Apr (date of the latest position) and Notional: USD 80)*

9. The result of loading the last event position is as follows:

	1 January	1 February	1 March
Bank A	USD 100	USD 90	USD 80
Bank B	-	-	**USD 80***

*Newly reported transaction (*Trade date: 1 Jan; Backloading date: 1 Mar (date of the last business event) and Notional: USD 80)*

10. Under the current design of the HKMA-TR system, to correct a reporting error which is identified after the maturity of a transaction, the latest snapshot position allowed to be corrected is either:

    (i) in the case the amendment method is used, the day before the maturity date of the transaction; or
    (ii) in the case the replacement method is used, the maturity date of the transaction.

11. In any case, it is not acceptable to bring correction to the position of a date after the maturity of the transaction, which is obviously zero.

(B) Life-cycle Approach

12. To correct error by the life-cycle approach, Bank B shall withdraw the original transaction and report a new transaction with positions corrected at all business event dates. The result of this approach is as follows:

	1 January	1 February	1 March
Bank A	USD 100	USD 90	USD 80
Bank B	**USD 100***	**USD 90***	**USD 80***

*Newly reported transaction (*Trade date: 1 Jan; Agreement date: each respective agreement date and Notional: each respective notional*)

Application

13. The requirements in this appendix are applicable to the interim reporting arrangement only. In determining the appropriate approach to be adopted in the final OTC regulatory regime, the HKMA will keep in view the developments in regulatory requirements in other major financial centres.