



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B9/135C

28 June 2013

The Chief Executive
All Licensed Banks

Dear Sir/Madam,

Interim reporting requirements for OTC derivative transactions

I refer to the recent industry consultation conducted with regard to the above.

I am now writing to inform you that, pursuant to section 63(2) of the Banking Ordinance, the Monetary Authority requires your bank (with effect from 5 August 2013) to report specified OTC derivative transactions to the trade repository operated by the HKMA (HKMA-TR). Reporting should be made in accordance with the requirements set out in the Annex to this letter.

Background

In keeping with the commitment of the G20 leaders to reform the OTC derivative market globally, the HKMA has been working with the Securities and Futures Commission (SFC) and the Financial Services and the Treasury Bureau (FSTB) to develop a regulatory regime for the local OTC derivative market. The FSTB intends to introduce a Securities and Futures (Amendment) Bill into the Legislative Council (LegCo) next month to provide the legal framework for the new regime. Thereafter, a further round of public consultation will be conducted on the detailed regulatory requirements to be set out in subsidiary legislation under the Securities and Futures Ordinance (SFO). This consultation is expected to be undertaken in the third quarter of this year. Subject to the passage of the relevant legislation by LegCo by the end of this year and taking into account the proposed transitional arrangements for the mandatory reporting and clearing requirements, the new regulations under the SFO are expected to take effect in the second quarter of 2014 at the earliest.

Earlier this year, however, the Financial Stability Board (FSB) indicated an expectation that its member jurisdictions (including Hong Kong) should have regulations on trade reporting in place by July this year. To meet this expectation, and given that the HKMA-TR will soon be ready to commence the receiving and processing of trade data, the HKMA considers it appropriate to implement interim reporting arrangements before the Securities and Futures (Amendment) Bill comes into effect.

Interim reporting requirements

The interim reporting requirements will apply to all licensed banks. Licensed banks are the major players in the local OTC derivative market.

The interim reporting requirements are a simplified version of the reporting requirements which will ultimately be adopted under the new regulatory framework once the Securities and Futures (Amendment) Bill takes effect.

Under the interim reporting requirements, a licensed bank will only be required to report OTC derivative transactions that are interest rate swaps or foreign exchange non-deliverable forwards to which the bank is a counterparty, where the transactions are booked in its Hong Kong office / branch and where the other counterparties to the transactions are also licensed banks. This means that trades with clients which are not licensed banks, or trades originated or executed by the bank but not booked in its Hong Kong office / branch, are excluded from the requirement to report during the interim reporting period. For each reportable transaction, the reporting obligation covers the original trade as well as any specified business events¹ over the life cycle of the trade. If a reportable transaction is novated for central clearing, the new transaction entered into by the reporting bank with the central counterparty concerned is also reportable.

The interim reporting requirements will take effect from 5 August 2013. In line with international practice, information on reportable transactions which are traded before, and remain outstanding on, the implementation date of 5 August 2013 should be backloaded into the HKMA-TR as appropriate. To allow for a smooth transition, reporting banks will be given a grace period of approximately four months up to and including 8 December 2013 to set up their system linkage with the HKMA-TR and a further grace period of approximately two months up to and including 4 February 2014 to complete the backloading or reporting of reportable transactions entered into by reporting banks on or before 8 December 2013. In other words, a reporting bank should report its first batch of reportable transactions to the HKMA-TR, at the latest, by 11 December 2013 (T+2 for transactions entered into on 9 December 2013). The reportable transactions entered into by reporting banks before, and which remain outstanding on, 5 August 2013 as well as those entered into by reporting banks between 5 August 2013 and 8 December 2013, can be backloaded / reported any time up until the end of the subsequent two months' grace period (i.e. no later than 4 February 2014).

In reporting OTC derivative transactions, reporting banks should adhere to the mode and format of reporting, and the detailed reporting requirements, set out in the *OTC Derivatives Trade Repository Reporting Service Reference Manual* issued by the HKMA-TR to all AIs. The HKMA-TR has announced that the first user test will be conducted in early July 2013, to prepare TR Members for reporting in August 2013. Subsequent user tests will be conducted about once every month, and the relevant

¹ These include any transactions arising from de-clearing / re-clearing operations.

schedule and arrangements will be announced by the HKMA TR shortly. Satisfactory completion of the user tests is a prerequisite to acceptance for reporting by the HKMA-TR. The HKMA-TR has been working closely with some major trade repositories overseas on the provision of compatible data and data format requirements to facilitate indirect reporting through those trade repositories.

To facilitate identification of counterparties that are licensed banks during the interim reporting period, the HKMA will send a notification, through the email address Banks@hkma.gov.hk, to all licensed banks whenever there is any change to the list of licensed banks. Your bank is advised to check its "ICLNET" email address, designated for receiving circulars from the HKMA, regularly for those notifications. The list of licensed banks is also available for downloading on the HKMA website.

Please refer to the Annex for details of the interim reporting requirements.

Should your bank have any questions about this letter, please contact Mr Andy Cheung on 2878-1022 or Ms Rita Yeung on 2878-1388.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. Financial Services and the Treasury Bureau
(Attention: Mr Jackie Liu)