

Date: 04 June 2013

Ms Karen Kemp
Executive Director (Banking Policy)
Hong Kong Monetary Authority
55th Floor, Two International Financial Centre
8 Finance Street, Central
Hong Kong

By email and Post

Re: Reporting logic in amending historical transaction records

Dear Karen,

We refer to the reporting logic in amending historical transaction records in the trade repository established and operated by the Hong Kong Monetary Authority (HKMA) for the purposes of collection of data relating to OTC derivatives transactions (HKMA-TR).

The International Swaps and Derivatives Association (ISDA)¹ greatly appreciates the helpful discussions which have taken place between us on the technical specifications of the HKMA-TR. We commend the pragmatic approach undertaken by the HKMA in meeting international commitments and achieving consistency. ISDA and the industry support the G20 commitments including the increased regulatory transparency regarding the international OTC derivatives markets and the industry is committed to providing regulators with the information required to meet such G20 commitments.

The cross-border nature of the OTC derivatives markets often presents unique challenges to regulators worldwide in forming effective regulation while preserving the principle of international comity. We value the leadership role Hong Kong is seeking to play.

¹ Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 60 countries. These members include a broad range of OTC derivatives market participants including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

As set out in the Reporting Service Reference Manual (Reference Manual) released by the HKMA for the HKMA-TR, a reporting entity is required to submit trade information at inception and on subsequent trade events individually and sequentially, in chronological order, as they occur, until the expiry or scheduled termination of the transaction under a life-cycle approach, or, may incorporate the effects of multiple trade events taken place on the same day for a transaction under a snapshot approach, of which the snapshots should be reported one by one sequentially and, in chronological order².

From the subsequent conversations between DTCC³, ISDA and HKMA on the HKMA-TR technical specifications, we understand that a reporting entity would have to terminate (by applying the “Withdrawal” event request in the HKMA-TR) an existing trade record of a transaction in the HKMA-TR and replace with a new trade record by replicating all trade events of the transaction from inception (further referred to as the “Rebuild logic”) upon corrections or adjustments of the positions previously reported (other than the most recent one reported to the HKMA-TR).

We understand that the Rebuild logic satisfies the sequential reporting requirement.

The industry has identified the following challenges in complying with this logic:

1. Deviation from the global snapshot reporting paradigm

The current snapshot reporting paradigm implemented by a large number of industry participants and market infrastructure providers is to report the details of any eligible swap contract as a full position record at a given point in time. Any changes in the details of a swap contract are subsequently reported via a simple workflow that restates the new position on a “go forward” basis as opposed to attempting to retrospectively correct the reporting history for the swap.

For the FX and Rates asset classes, the snapshot reporting model is now, to a large extent, a standard industry workflow. All market participants who have invested significant resources to build out connectivity to the DTCC GTR have coded to this workflow, as have service providers offering 3rd party connectivity.

2. Complexity and significant cost associated in supporting the Rebuild logic

The Rebuild logic paradigm is significantly more complex than the existing industry standard workflow and would impose significant costs on the industry by changing existing practices, systems and workflows.

3. Uncertain regulatory benefits

In addition to the cost and complexity that would be incurred, the tangible benefits to regulators are unclear. However, the industry would like to engage further with the

² Reference Manual - Section 8.1 Trade Information Submission Approach

³ Depository Trust & Clearing Corporation



HKMA to understand the transparency required, and explain how the solution currently in place for other jurisdictions could provide similar transparency.

The industry strongly suggests that the existing industry snapshot reporting paradigm and workflows be leveraged for the purposes of reporting to the HKMA. This would retain a simple, consistent industry standard reporting model, it would also provide the HKMA with timely access to all the relevant data necessary to conduct their oversight and supervisory activities, and significantly reduce delivery risk to the industry in meeting the HKMA reporting compliance timeline.

We would value the opportunity to meet with the HKMA as soon as possible to discuss the above in more detail. ISDA and its members look forward to further the dialogue with HKMA on this subject matter.

If you have any questions on this letter, please do not hesitate to contact Jeffrey Kan (jkan@isda.org).

Yours faithfully

A handwritten signature in black ink, appearing to be "JK", is written over a horizontal line. Below the signature, the name "Jeffrey Kan" is printed in a black, sans-serif font.

Jeffrey Kan

Director of Infrastructure Management, Asia Pacific

ISDA