ISDA Safe, Efficient Markets

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Dear Mr Lim,

Concept Paper on Recordkeeping and Reporting Requirements for Over-the-Counter Derivatives

1. Thank you for your letter of March 26, 2012. We greatly appreciate the opportunity to provide our members' feedback on the above Concept Paper.

2. While our members understand the rationale for the imposition of the interim requirements and are happy to note that PIDM will consider reducing the length of the temporary suspension period once these requirements are implemented, our members are concerned with the significant time and costs that will be required in order for them to implement the proposed requirements and the risk that they will have to make an additional investment of time and money in order to comply with the requirements of the Securities Commission ("**SCM**") when the trade repository is implemented.

3. ISDA supports the G20 commitments on OTC derivatives, including the implementation of reporting of OTC derivatives to trade repositories. To recapitulate, "by centralizing the collection, storage and dissemination of data, [the trade repository] can play an important role in providing information that supports risk reduction (including: assessing systemic risks; conducting market surveillance and enforcement; supervising market participants; and conducting resolution activities) and operational efficiencies for both individual entities and the market as a whole"[1].

4. Given the global nature of OTC derivatives, the relative size of Malaysia's OTC derivatives market and the significant role played by the Malaysian subsidiaries of foreign banks in the Malaysian OTC derivatives market, the reporting regime in Malaysia will need to be aligned with other major markets. Banks and other financial institutions have been engaged and continue to engage in intensive dialogue with regulators on the specifics of the trade reporting requirements and have invested and continue to invest heavily in systems, infrastructure and manpower to meet these requirements. As much as possible, the goal is to promote the creation and use of one global trade repository in each relevant asset class. To the extent that this is not possible, the goal is to permit institutions subject to reporting mandates to be able to report all trades to the relevant global trade repository and for the global trade

[1] Para 4.2.1 of the Australian Treasury's Consultation Paper on the *Implementation of a framework for Australia's G20 over-the-counter derivative commitments*, April 2012.

repository to, in turn, report the relevant trades to the relevant local trade repository. In order for this to work, the key requirement is that a local trade repository should not require reporting of data fields over and above those that are reported to the global trade repository.

5. The primary concern that our members have with the proposed reporting requirements in the Concept Paper is that it requires data well beyond that currently being proposed for the global trade repository. For example, the requirement to specify whether a transaction is for hedging or non-hedging purposes is unique. Our members also have a number of questions about various data field requirements. Our members would like to set up a taskforce that can work with PIDM on the reporting template. In addition, this taskforce can co-ordinate with DTCC which runs the global trade repositories to try to match the data fields as much as possible with those in the global trade repositories. This would be similar to the process that we are undertaking with the Hong Kong Monetary Authority in relation to the Hong Kong trade repository.

6. In relation to the specific questions posed in section 7.1 of the Concept Paper, to the extent appropriate, we summarize the aggregated responses of our members. We understand that certain members may be making their own direct submissions to you.

Questions	**Responses**
(a) Do you envisage any problem or concern to report data fields in the format as prescribed in the template? If yes, please highlight how these concerns may be addressed.	(a) Yes. Proposed taskforce to work with PIDM and DTCC.
(b) Are there any specific types of OTC derivatives (e.g. Islamic derivatives) trades that the template may not be suitable for?	(b) See response to (a) above.
(c) Based on the objective of the recordkeeping exercise, what is your view about the proposed definition for hedging, i.e. a trade that meets the hedge accounting standards of the Malaysian Financial Reporting Standards (MFRS) 139: Financial Instruments: Recognition and Measurement? Please suggest any other hedge definitions that would be suitable and what the challenges could be in applying these definitions.	(c) Our members need to understand why PIDM requires the hedging/non-hedging purpose to be reported. From a bank's perspective, as banks generally do not engage in one-for-one hedging but instead manage their risks on a portfolio basis in a dynamic manner, this will not meet the accounting definition of hedging.
(d) Do you have any comment or suggestion on the proposed standardized counterparty identifiers?	(d) As considerable work (led by the U.S. Office of Financial Research) has already been done on implementing a global Legal Entity Identifier (LEI) system, this should be implemented instead of a unique local solution. The Financial Stability Board (FSB) has recently announced the formation of an LEI Expert Group and has committed the Group to deliver concrete proposals by April on the implementation of a global LEI system for review by the FSB and delivery to the G-20 at the June 2012 Summit. http://www.treasury.gov/connect/blog/Pages/Applauding-Progress-on-the-Global-LEI-

	Initiative.aspx
(e) Does your institution have a collateral management system that captures all the collateral information required in the template and is your collateral management system integrated with other back-office or relevant systems?	(e) ---
(f) In relation to collaterals, please provide the following information: i. As at 30 March 2012, how many percent of your institution's outstanding OTC derivatives trades (by number of trades and mark-to-market value of trades) is subject to collateral agreement? What are the types of OTC derivatives trades that are not commonly subjected to collateral arrangement? ii. What type of collateral agreement does your institution use? If there is more than one type of collateral agreement, what is the percentage of usage (by number of agreements) for each type? iii. What are the common types of collateral posted or received by your institution in relation to OTC derivatives?	(f) ---
(g) What is your institution's practice in respect of reconciliation of outstanding OTC derivatives trades with respective counterparties? Specifically, as at 30 March 2012, how many percent of your outstanding OTC derivatives trades (by number of trades and mark-to-market value of trades) are reconciled at daily, weekly, monthly, quarterly and annual intervals or not reconciled regularly?	(g) Portfolio reconciliation is not a common practice in Malaysia. In January 2011, ISDA conducted an APAC Collateralized Portfolio Reconciliation exercise. 28 banks participated in this exercise but none from Malaysia.
(h) How long would it take for mark-to-market valuation to be procured and reflected in your systems?	(h) ---
(i) Are there constraints in furnishing the recordkeeping and reporting template to BNM and PIDM within 24 hours? If yes, please highlight and provide the following information: i. What enhancements would be required? ii. What is the estimated timeframe to implement the enhancements? iii. What are the estimated costs for such enhancements?	(i) Yes.
(j) What would be the most efficient alternative arrangements for collecting OTC derivatives information going forward? What is your view on the use or enhancements to existing financial	(j) Leverage off the reporting to global trade repositories.

market infrastructure to capture OTC derivatives information?	

Please feel free to contact Jacqueline Low (jlow@isda.org, +65 6538 3879) or Keith Noyes (knoyes@isda.org, +852 2200 5909) at your convenience.

Yours faithfully,
For the International Swaps and Derivatives Association, Inc.

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