

December 6, 2011

**Mr Colin Pou**  
**Head, Payment Systems Operation Division,**  
**Financial Infrastructure Department**  
**Hong Kong Monetary Authority**  
**55th Floor, Two International Finance Centre**  
**8 Finance Street, Central**  
**Hong Kong**

Dear Mr. Pou,

The International Swaps and Derivatives Association, Inc. (ISDA) notes the “Report on consultation on logistical and technical arrangements for reporting to the Hong Kong trade repository (Report)” published by the Hong Kong Monetary Authority (HKMA) on November 8. ISDA has held further discussion with its membership about the Report and would like to bring to your attention the concerns that have been raised.

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world’s largest global financial trade associations, with over 800 member institutions from 56 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses and other service providers. ISDA has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool.

ISDA commends the HKMA for their consideration of industry’s preference over a number of aspects and in particular, the acceptance of reporting trade data via an agent. There is a strong preference amongst global dealers to report the transactions via the global trade repositories (TR) at inception. Consistency between the HK trade repository and the global TR would allow reporting to be achieved seamlessly and save on unnecessary costs associated with local only reporting field(s). ISDA appreciates the continuous discussion with HKMA on this subject.

#### Global TRs development

ISDA notes that the major overseas TRs have not yet finalized their standards (eg. reporting fields) as of publication of the Report. Many of these, including the Rates and FX (the two asset classes that HK will cover by Jan 2013), however, should finalize their standards in the near future. The industry hopes that HKMA could retain flexibility to cope with upcoming developments at global TRs (including reporting fields, reporting approach etc.). We also note

**International Swaps and Derivatives Association, Inc.**

Suite 1502 Wheelock House

20 Pedder Street,

Central, Hong Kong

P 852 2200 5900

F 852 2840 0105

[www.isda.org](http://www.isda.org)

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TOKYO

and welcome discussions that have taken place between HKMA and DTCC<sup>1</sup> on data feeds from the global TRs (including FX TR) to HK's TR.

### Trade matching

The Report states that matching is required for any trade reported by "messenger" type agent. The industry notes that the global TRs (where the global TRs itself do not match the trade but capture the "matched" status submitted by confirmation matching vendor) will be treated as a "messenger" type agent. Therefore, any trade submitted will require matching without acknowledging the fact that such trade data was properly "matched" in the upstream system (eg. MarkitWire). We would be grateful if HKMA could clarify whether such "matched" transactions submitted by global TRs could be regarded as a matched trade.

### Life Cycle Approach versus Snapshot Approach

The Report concludes that the life cycle approach should be applied at the inception of trade reporting. ISDA notes that this will create an inconsistency between the reporting to HK TR versus to the global FX TR and (potentially) the global Rates TR.

ISDA understands that firms will send data to the global FX TR under a snapshot (targeted for end of June 2012). Dealers also report that subsequent changes to a FX Non Deliverable Forward (NDF) will only take place on a rare basis, hence, it is unlikely to have another life cycle event throughout the tenor of the trade. To comply with life cycle reporting, the industry need to make additional infrastructure investment while the benefits of such approach as stated in the Report are uncertain. We would appreciate if the HKMA could re-consider extending to support the snapshot approach for FX derivatives reporting.

ISDA also notes that in the global Rates TR, there are certain "contract intrinsic events", for example, FX indexed trade notional resets (also called MTM Swaps), which may only be captured via a snapshot submission by dealers on a daily basis. Though there is not a comprehensive list of such events, the example highlights that there is still a need to support reporting via the snapshot approach. We look forward to discussing further this issue with the HKMA.

### Lifecycle reporting in sequential order

The Report states that any event reported under the Lifecycle approach should be in sequential order. The industry would appreciate if there is a list of examples for further reference, such as whether a trade amended several times in a day (but not in the same field) could be reported once (but capturing all changes). Otherwise, each change would require discreet sequential reporting.

### Time limit for back loading

ISDA appreciates that the HKMA will assist in coordinating the back loading effort of reporting entities. There is a suggestion by some members that they may backload the transaction portfolios in several batches and would be grateful if the HKMA could accommodate this.

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<sup>1</sup> DTCC is selected to operate (solely / jointly with other firms) the global trade repositories on FX, Rates, Equity and Commodities

There is a proposed 3-day time limit) in the Survey on Logistical and Technical Arrangements for Reporting to Hong Kong Trade Repository (circulated on July 29) for firms to rectify any discrepancies found between the two submitting entities. Given that not all dealers will backload the transactions at the same time and the potential large volume of transactions to be backloaded, there should be a longer period for firms to rectify in this case. ISDA welcomes further discussion with the HKMA on the appropriate period length.

## Legal entity identifier (LEI)

ISDA appreciates that the HK TR will incorporate the global LEI. The Report states that an interim local LEI scheme is under development, we would be grateful if further details could be announced in due course.

## Additional comments on the Consultation Paper on the Proposed Regulatory Regime for the Over-the-Counter Derivatives Market in Hong Kong

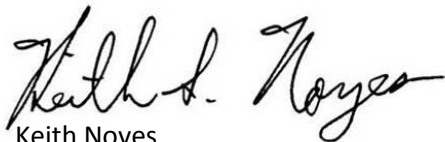
ISDA made a submission on the Consultation Paper on the Proposed Regulatory Regime for the Over-the-Counter Derivatives Market in Hong Kong (Consultation Paper) issued by the Hong Kong Monetary Authority and the Securities and Futures Commission jointly in October 2011.

We would like to bring your attention to certain comments in the submission that have an impact on the TR design.

- Client confidentiality<sup>2</sup>  
Our proposal of an exemption from the reporting obligation should apply when local laws prohibit trade reporting into the HKMA-TR.
- De-clearing<sup>3</sup>  
Our proposal of allowing de-clearing

ISDA and its members look forward to continued dialogue with HKMA on this subject matter. If you have any questions about this letter, please do not hesitate to contact Jeffrey Kan ([jkan@isda.org](mailto:jkan@isda.org)) at +852 2200 5900.

Yours sincerely,



Keith Noyes  
Regional Director, Asia Pacific  
International Swaps and Derivatives Association, Inc.



Jeffrey Kan  
Director of Market Infrastructure, Asia Pacific

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<sup>2</sup> Please refer to our separate submission sent on Nov 30 for details, page 7.

<sup>3</sup> Please refer to our separate submission sent on Nov 30 for details, page 13.