# Reporting Requirements under Phase 2 Mandatory Reporting

**13 December 2016**

**Securities and Futures Commission**

**1**

- Re-cap of the phase 1 reporting requirements

**2**

- Phase 2 reporting requirements

# 1. Re-cap of the phase 1 reporting requirements
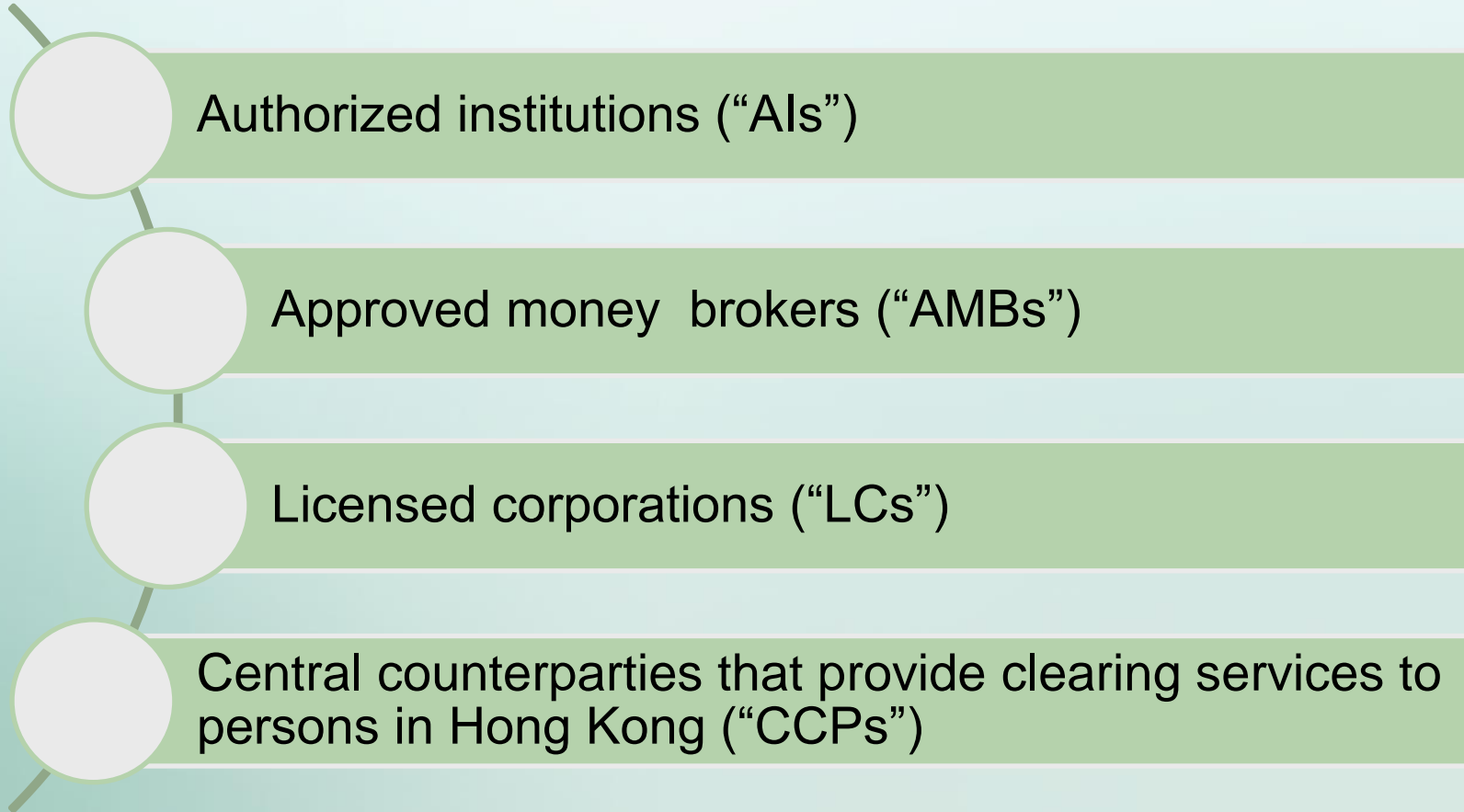
# Re-cap of the phase 1 reporting requirements

## Reportable transactions in phase 1:

| Product class | Product type |
|---|---|
| **Interest rate swaps ("IRS")** | - plain vanilla IRS (floating vs. fixed)<br>- plain vanilla basis swap (floating vs. floating)<br><br>in each case, in currencies and floating rate indices to be specified by the HKMA |
| **Non-deliverable forwards ("NDF")** | - non-deliverable forward transactions in currencies to be specified by the HKMA |

# Reporting entities:

- Authorized institutions ("AIs")

- Approved money brokers ("AMBs")

- Licensed corporations ("LCs")

- Central counterparties that provide clearing services to persons in Hong Kong ("CCPs")

# Re-cap of the phase 1 reporting requirements

## Reporting obligation:

| | |
|---|---|
| **AIs, AMBs and LCs** | • Counterparty transactions<br>• "Conducted in Hong Kong" transactions |
| **CCPs** | • RCHs - counterparty transactions (as part of the clearing process)<br>• ATS-CCPs - counterparty transactions <u>and</u> only where the other counterparty is a Hong Kong incorporated company |

# Reporting to include:

♦ Report new transactions (i.e. reportable transactions entered into on or after 10 July 2015 )

♦ Backload outstanding historical transactions (i.e. reportable transactions entered into before 10 July 2015 but which are still outstanding at that time) – applicable to counterparty transactions only

♦ Report subsequent events

# Re-cap of the phase 1 reporting requirements

## Exemptions, reliefs and relaxation:

♦ AIs, AMBs and LCs receive from their affiliate confirmation in good faith that the affiliate has reported the transactions

♦ Exempt person relief for small players – notional outstanding per asset class* ≤ USD 30 million

♦ Masking relief – gazetted list of designated jurisdictions

♦ Masking relief – trades without customer consent (only for trades entered into prior to 10 Jan 2016)

* For phase 2 – the notional outstanding will base on ALL specified OTC derivatives transactions

# Additional requirements:

To expand the product scope to cover all 5 asset classes of OTC derivative products

To expand the scope of transaction information to be reported

To commence reporting of valuation information

# Phase 2 reporting requirements – expanding product scope

**Interest rate derivatives**
- ✓ Certain IRS (in phase 1) + all other interest rate derivatives

**FX derivatives**
- ✓ NDF (in phase 1) + deliverable FX forwards + all other FX derivatives
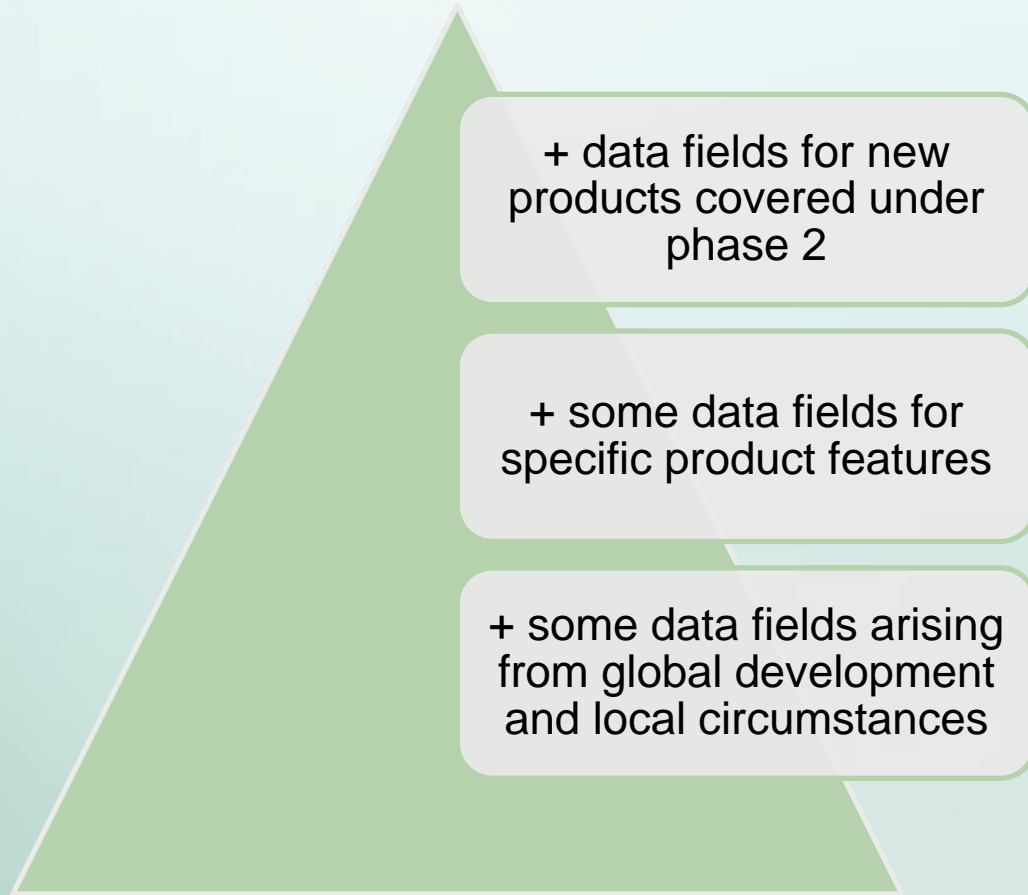
**Equity derivatives**
- ✓ All

**Credit derivatives**
- ✓ All

**Commodity derivatives**
- ✓ All

# Phase 2 reporting requirements – expanding the scope of transaction information

+ data fields for new products covered under phase 2

+ some data fields for specific product features

+ some data fields arising from global development and local circumstances

# Phase 2 reporting requirements - reporting of valuation information

**For transactions that are cleared through a CCP:**

- To report valuation determined by the CCP

**For non-centrally cleared transactions where counterparties have agreed to exchange margins:**

- To report valuation that is mutually agreed between the counterparties for the purposes of exchanging margin

**For other non-centrally cleared transactions:**

- To report internal valuation

# Phase 2 reporting requirements – adjustment for "exempt person" relief

**Current rules**
- Per product class
- Threshold: US$30m notional amount of outstanding transactions for each product class

**New rules**
- On all OTC derivative transactions
- Threshold: US$30m notional amount of all outstanding OTC derivative transactions

# Phase 2 reporting requirements – backloading additional information for reported transactions (outstanding as at 1 July 2017)

**Short-dated transactions (mature before 1 July 2018)**

- No need to backload
- Subsequent events do not need to include additional transaction information

**Long-dated transactions (mature on or after 1 July 2018)**

- Need to backload with additional information within 3 months grace period
- Subsequent events before the backloading date do not need to include additional transaction information
- Subsequent events on or after the backloading date need to include additional transaction information

# Thank you

# Phase 2 Mandatory Reporting under the OTC Derivatives Regime

OTC Derivatives Trade Repository

Hong Kong Monetary Authority

13 Dec 2016

# Reporting Service Launched in Phases

- Phase 1A –  July 2013:
  - Single currency IRS (Fixed vs Float, Float vs Float, OIS) and FX Non-Deliverable Forward
  - Linkage to DTCC's Trade Repository in December 2013

- Phase 1B – September 2014:
  - Addition of new products including the remaining commonly traded Interest Rates and FX derivatives products plus commonly traded Equity derivatives products for reporting

- Phase 2 – June 2016:
  - Addition of  commonly traded Credit and Commodities derivatives products plus exotic products of all five asset classes
  - Support Valuation Information Reporting

# **Access to Reporting Service**

- User have to apply to become a Member, and enter into a Reporting Service Agreement (RSA) with the HKMA

- Relevant procedural and reporting requirements set out in:
  - Reference Manual
  - Administrative Interface Development Guide (AIDG) technical guides and detailed user manuals
  - Gazette Notice
  - Supplementary Reporting Instructions (SRI)

- Dedicated information webpage of the HKTR
  https:// hktr.hkma.gov.hk

# Checklist for Accessing Reporting Service

| | | |
|---|---|---|
| Enter into the Reporting Service Agreement with the HKTR | | Required |
| Nomination of agent | | Optional |
| Internal system and connectivity readiness | | Required |
| Agent (if any) readiness (testing with agent) | | Required |
| Training by HKTR (classroom or training videos for download)<br>**Training schedule in H1 2017: February 2017, May 2017** | | Recommended |
| Simulation test with HKTR (both user and agent (if any))<br>**Simulation test schedule in H1 2017: March 2017, May 2017** | | Required |
| Setting up settlement arrangements for reporting fee | | Required |

Detailed Information can be found at the HKTR info webpage
https://hktr.hkma.gov.hk

# Products Coverage

**Cumulative number of products supported after each phase via standard templates**

| Asset class/ Launch Date | July 2013 | Sep 2014 | Jun 2016 |
|---|---|---|---|
| Interest Rate | 3 | 11 | 11 |
| FX | 1 | 4 | 4 |
| Equity | - | 6 | 8 |
| Credit | - | - | 6 |
| Commodity | - | - | 28 |
| No. of products | 4 | 21 | 57 |

For the products not supported by the Standard template, such as exotic or highly complex transactions, the other templates under each asset class should be used

# Reporting Templates

| Reporting Templates available in HKTR since Sep 2014 | New Reporting Templates available in HKTR since June 2016 |
|---|---|
| Three Standard templates: <br> Interest Rate (Standard) <br> FX (Standard) <br> Equity (Standard) | Two Additional Standard templates: <br> Credit (Standard) <br> Commodity (Standard) <br><br> Five Others templates : <br> Interest Rate (Other) <br> FX (Other) <br> Equity (Other) <br> Credit (Other) <br> Commodity (Other) <br><br> One Valuation template: <br> Valuation information reporting |

# **Standard template and Other template**

## **Standard template**

- It should be used when reporting transactions in products that are supported by the HKTR Standard template

- Reporting entity has to firstly determine if the transaction to be reported suits any of the values listed under the data field "Product Taxonomy" in the Standard template. For the lists of the values, please refer to the AIDG

# Standard template and Other template

## Other template

- It should be used when reporting transactions in products <u>not</u> supported by the HKTR Standard template

- There are five possible values for the data field "Product Taxonomy" in the Other templates (i.e. "InterestRate:Other", "ForeignExchange:Other", "Equity:Other", "Credit:Other", "Commodity:Other")

- The data field "OTC Derivatives Product Taxonomy" in the Other template also has to be populated with the options provided which is the closest to the product in the transaction while the value "others" under this data field should be selected if none of the other options are suitable for the transaction being reported. For the lists of the values, please refer to the AIDG

# Connectivity and Data Format

- Members to connect to the HKTR and access the Reporting Service through Internet, SWIFTNet or ICLNet

- HKTR system opens 7 days a week to accept transaction reports, except during several midnight service outage hours

- Submission of transaction information for products supportable under Standard Templates in XML (FpML) or CSV format.  Submission of transaction information for products supportable under the five Others Templates in CSV format ONLY

- Technical standards for  connectivity and submission set out in the published technical specifications, which are generally in line with commonly accepted market standards

# Trade Submission Approach

- User may opt to report by life-cycle approach or snapshot approach, except for backloading (which requires snapshots)

  - may apply different approaches to different trades

  - both sides of a transaction may apply different approaches


- Users may opt to report via an agent (nominated to HKTR)

  - agent can be trade counterpart or any third party vendor

  - a user may report directly or via an agent simultaneously

  - a user may appoint multiple agents

  - same agent may support multiple principal users

  - for AIs, reporting via an agent may constitute an outsourcing

   arrangement  requiring prior approval of HKMA

# Trade Information to be Reported

- Reflective of requirements of regulators and in conformity with market practices and international standards

- Formats for presenting trade information, and the relevant enumerations and coding schemes set out in the published technical specification (AIDG) and Gazette Notice

- Trade information to be reported is divided into mandatory and optional information.  Mandatory information covers core trade details and information essential for administration of trade information by the HKTR

- Specific requirements of regulators set out in the SRI

# Trade Linking and Matching

- For trades between two Members, the HKTR system will link up their reported trades.  Trades with only one side being a Member will be deemed one-sided sides and will not be linked

- Reports on single-sides trades, linked trades (with key contents fully matched or partially matched) and unlinked trades (trades between Members but cannot be linked) are available for verification and follow-up by Members

- It is responsibility of Members to ensure that they are reporting correctly, in compliance with the relevant regulatory requirements

# HKTR Contacts

**For questions about the service and operation of the HKTR, and the training and system tests, please contact the HKTR via**

- **HKTR hotline : 8100 3115  or**

- **HKTR email : hktr@hkma.gov.hk**

**THANK YOU**

# Phase 2 Mandatory Reporting Briefing Workshop – Highlights of Supplementary Reporting Instructions

13 December 2016

**HONG KONG MONETARY AUTHORITY**
香 港 金 融 管 理 局

# Revisions to SRI I – Error Corrections

**Changes from previous instructions:  reporting entities can choose to make error corrections with either the snapshot or life-cycle approach**

**Snapshot approach**
- ~~Only allowed if the error is not significant to the reporting institution and is unlikely to impact industry statistics~~   Is allowed in all cases
- Only corrects the latest position
- ~~AIs need to notify the HKMA if the snapshot approach is used~~

**Life-cycle approach**
- Is allowed in all cases
- Corrects errors in all the previous reports submitted to the HKTR

**Where a reporting error is identified after the trade has already matured / been terminated, no correction need to be made**

# Revisions to SRI I – Novation

**Example:  Entity A and Entity B entered into a transaction originally. Subsequently Entity A novated the trade to Entity C.**

**To report the novated trade:**

|  | Entity A | Entity B | Entity C |
|---|:---:|:---:|:---:|
| Terminate the original reported trade | ✓ | ✓ | |
| Report the new trade using the New Trade template and provide:<br>• Effective date of original trade in "Remarks" data field *<br>• "Prior-UTI" or "Prior-UTI-TID" ** | | ✓ | ✓ |

# Revisions to SRI I – Novation

**Example (cont'd):  Entity A and Entity B entered into a transaction originally.  Subsequently Entity A novated the trade to Entity C.**

**To report the novated trade:**

\*    The effective date of the original trade is recommended to be input in the "Remarks" data field

The date of the novation is to be input in the "Trade Date" data field

\*\*  "Prior-UTI" or "Prior-UTI-TID" only required to be populated by Entity C if Entity A had provided the related information to Entity C

# SRI II

**Data field requirement  flow follows Schedule 1 of the Reporting Rules:**

1. Information and particulars relating to administration of the reporting of the transaction
2. Information and particulars relating to the class or type of product to which the transaction belongs
3. Dates and periods relating to the transaction
4. Information and particulars relating to the counterparties to the transaction
5. Information and particulars relating to pricing of the transaction
6. Information and particulars relating to confirmation of the transaction

# SRI II

**Data field requirement flow follows Schedule 1 of the Reporting Rules (cont'd):**

7. Information and particulars relating to the execution of the transaction
8. Information and particulars relating to the clearing of the transaction
9. Information and particulars about any compression relating to the transaction
10. Particulars of any identifying references assigned to the transaction
11. Information and particulars relating to the valuation of the transaction

# (1) New data field "Special Terms Indicator"

- **Indicate "Yes" if there is key information relating to the core economic terms that materially affect the pricing of the transaction not captured by the data fields available in the Standard or Other template**

- **No further details are required at the time of reporting but relevant regulator may contact the reporting entity if it requires such details**

- **This field cannot be left blank, so indicate "No" if the template already captured all pricing information relating to the transaction**

# (1)  New data field "Hybrid-Other Asset Class"

- For specifying the secondary asset class involved in a hybrid trade

- Other template should be used

- Can report more than one asset class in the data field "Hybrid-Other Asset Class" for transactions that involve several asset classes

- Note:  the Primary asset class as mutually agreed between the trade parties should be indicated in data field "Asset Class" under item (2) in Schedule 1

# (2) Reporting FX Swap

- **FX Swaps should be broken down into and reported as two forwards transactions**

- **If the near leg amounts to a spot transaction, it is still required to be reported with the "Swap Link ID" data field populated**

# (4)  Data fields "Trade Party 1" and "Trade Party 2"

- **For reporting trades using the masking relief, the counterparty particulars of the masked party should be as follows:**
  - Data fields related to "Party Name" – enter "Masked"
  - Data fields related to party "Type" – enter "UserDefinedCode"
  - Data fields related to party "ID" – enter a unique internal reference code

- **Where one of the counterparty of the trade is an individual, the reporting of the counterparty particulars should be as follows:**
  - Data fields related to "Party Name" – leave blank
  - Data fields related to party "Type" – enter "UserDefinedCode"
  - Data fields related to party "ID" – enter a unique internal reference code
  - Data field "Counterparty Industrial Sector" – enter "Individual"

# (4)  Data fields "Industrial Sector" and "Counterparty Industrial Sector"

- The requirement to populate the data fields with the new set of values (Bank, Non-bank financial sector, Central counterparty, Private non-financial sector, Public sector, Individual, Others) will be delayed considering international standards still being developed

- The transitory arrangement will be to report using the existing values "Corporate" and "Individual" until further notice

- This is a matching data field, input should be the same between the two trade parties if both subject to reporting

# (8)  Data field "Clearing"

- All trades that have CCPs as a counterparty have to be reported with a "Yes" value for the "Clearing" data field

- In reporting cleared trades, the alpha trade needs to be terminated

- Gazetted description:

  "To indicate whether the trade <u>was</u>, or <u>is intended to be</u>, cleared through a central counterparty."

# (9) New data field "Compression"

- **Indicate "Yes" if the transaction is an existing trade that was previously reported and was amended or terminated as a result of a compression exercise or is a new trade resulting from compression**

- **The field cannot be left blank, indicate "No" if transaction not related to a compression exercise**

- **Use Amendment template to report the compression with the updated notional values, OR**

- **Use Amendment template to report the compression followed by the Termination template to report trade partial / full termination**

# (10)  Identifying References

- **Previous instructions was "from 1 February 2017, a bilaterally agreed UTI which is shared and paired between the two counterparties must be reported for a transaction which does not carry a USI or TID"**

- **As the development of international standards are delayed, the requirement to provide such an identifier in the data field "Bilateral Comments" will not be effective until further notice**

# (10)  Identifying References

**Data field "Prior-UTI" / "Prior-UTI-TID"**

- **For any trades which are associated with an already reported trade where a relevant UTI was provided, the said UTI should be provided in the "Prior UTI" and/or the "Prior-UTI-TID" data field(s)**

- **Example:**
  - **Novation**
  - **Exercise or expiry of option**
  - **Centrally cleared transactions**

# (11)  Valuation

Data values under data field "Valuation Type"

- "CCP Valuation" – for centrally cleared transactions

- "Mark-to-Market" – for valuations mutually agreed between two counterparties

- "Mark-to-Model" – for valuation based on internal references

# Updates to the SRI

**Please look for "Updates to the SRI" on the HKTR Info Page.**

**The main documents will also be updated around twice a year to incorporate the updates.**