

Updates and Clarification on the Supplementary Reporting Instructions for OTC Derivative Transactions published on 25 November 2016

The latest version of the Supplementary Reporting Instructions for OTC Derivative Transactions (SRI 1) and the Supplementary Reporting Instructions for OTC Derivative Transactions – Part 2 (SRI 2) were published on 25 November 2016. Following an industry meeting on 8 December and a Technical Briefing on 13 December, in which we discussed some concerns arising from these instructions, we have concluded our positions. This document provides updates and clarifications to SRI 1 and SRI 2 to address the questions and issues raised by reporting entities subsequent to the publication of the SRI 1 and SRI 2 on 25 November 2016.

SRI 1

Paragraph 7 Events occurred according to predetermined schedule

It is clarified that for the sake of completeness, changes to mandatory (including "mandatory when applicable") fields occurred according to a predetermined schedule have to be reported to the HKTR by using the Amendment template, even if the predetermined schedule has been reported to the HKTR before¹.

Footnote 15 Transactions subject to masking relief

The reporting requirement under paragraph 72 is now deferred until the commencement date of Phase 2 reporting. Reporting entities may continue with their current practices to report masked transactions until 30 June 2017.

Paragraph 73 and footnote 17 Transactions of private individuals

The reporting requirement under paragraph 73 is now deferred until the commencement date of Phase 2 reporting. Reporting entities may continue to report counterparty identifying particulars of private individuals according to paragraph 68 of the SRI issued on 29 January 2016 until 30 June 2017. Nevertheless, reporting entities which are capable of reporting counterparty identifying particulars of private individuals according to paragraph 73 are encouraged to do so as soon as possible. Similarly, reporting entities are encouraged to complete the withdrawal and resubmission of outstanding reported transactions which contain particulars of private individuals as soon as possible, and in any case not later than 30 June 2017.

¹ As this requirement to report scheduled events when they happen is consistent with that set out in the previous SRI 1 version of 29 Jan 2016, we do not expect reporting entities will have difficulty to comply. If a reporting entity seeks more time to comply as justified by its unique circumstances, it should contact its primary regulator as soon as possible.

It is clarified that for the "Party Name" field, an input of an asterisk or another symbol which does not lead to identifying the counterparty would be deemed as equivalent to leaving the field blank.

Paragraph 87 (ii) Fund allocation

It is clarified that the requirement to populate the "Prior-UTP" and "Prior-UTI-TID" data fields is subject to whether a USI or TID is available. Under the scenario where a block trade is allocated within T+2, and therefore the original block trade would not be reported and thereby would not have an original USI or TID, the reporting of the resulting split trades would not be required to populate the "Prior-UTP" or the "Prior-UTI-TID" data fields. However, for cases where a block trade has been reported to the HKTR and therefore have an original USI or TID, then the "Prior-UTP" or the "Prior-UTI-TID" data fields must be populated accordingly for the resulting split trades under this "one-to-many" scenario.

Paragraph 89 (iii) Novation²

There are instances where Entity C, as a step-in-party, would not have access to information relating to the identifiers from the original trade. For purposes of clarification, in the new trade submission for the novated trade, Entity C would not be required to populate the "Prior-UTP" or the "Prior-UTI-TID" data fields if the original trade's USI or TID were not provided to it. However, Entity C would be required to report in the "Prior-UTP" or the "Prior-UTI-TID" data fields if it was provided with the information from the original reported trade.

SRI 2

C.1.3 Data field "Hybrid-Other Asset Class"

Paragraph 14

For clarification, for trades involving more than one underlying asset class, for example hybrid trades, reporting entities are only required to agree with their counterparties the primary asset class of the transaction for reporting purposes. Entities are to note that only the "Asset Class" data field will be used for matching purposes by the HKTR system but not the "Hybrid-Other Asset Class" data field.

² Further guidance on the methodology on reporting the original trade date and novation trade date of novated trades will be provided in due course.

C.2.3 Reporting complex transactions

This paragraph replaces **Paragraph 19** of the SRI 2:

19. Subject to paragraph 18, when reporting a complex trade or structured transaction, reporting entities should report the transaction following what has been agreed and confirmed among the counterparties based on the confirmation or contract that they executed. For example, if a structured trade involves an Equity Swap and a NDF and the trading parties decided to execute an exotic product contract or confirmation, the reporting entities should follow with the contract or confirmation basis and report the trade as an exotic product using the Other template. However, if the trading parties decided to break down the trade into two contracts (i.e. one Equity Swap and one NDF), then the reporting entities should report two separate trades according to the two contracts. If a multi-leg complex transaction is confirmed between the trade parties as separate trades with each leg having its own UTI, reporting entities should report each different leg as a separate reporting entry with its UTI. If a complex transaction is confirmed as a single trade with only one UTI, reporting entities should submit one reporting entry with all the legs of the transactions.

C.2.4 Reporting FX Swap

Paragraph 20

For clarification, if the near leg of the swap is a spot transaction, reporting entities should still report this near leg, along with the far leg forward transaction and link the two transactions with a unique value in the “Swap ID” data field.

C.4.2 Data fields “Industrial Sector” and “Counterparty Industrial Sector”

This paragraph replaces **Paragraph 26** of the SRI 2:

26. The possible values of the data fields “Industrial Sector” and “Counterparty Industrial Sector” will be expanded on 1 July 2017 to include 1. Bank, 2. Non-bank financial sector, 3. Central counterparty, 4. Private non-financial sector, 5. Public sector, 6. Individual and 7. Others. The requirement for reporting entities to populate the data fields with these expanded values will be deferred until further notice as international standards are still being developed. Reporting entities should continue to report in these fields using the existing values “Corporate” or “Individual” until further notice.

C.10 Information and particulars relating to the valuation of the transaction

Addendum to Paragraph 49:

“Reporting entities have the option to report internal valuations first where valuations

are not agreed within T+2, thereby reporting the value “Mark-to-Model” in the “Valuation Type” data field, and to update the field value to “Mark-to-Market” if and when subsequently the reporting entities reached a mutually agreed valuation with their counterparties. However, it is not required for the reporting entities to retrospectively amend the previously provided valuation figures owing to such subsequent mutual agreement. Discrepancies in valuations are also allowed, as long as they are in line with the threshold stipulated by the Risk Mitigation Standards.”