Further Updates and Clarification on the Supplementary Reporting Instructions for OTC Derivative Transactions published on 25 November 2016 (June 2017 Updates)

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 the updates to SRI 1 and SRI 2 published on 27 January 2017 (January 2017 Updates) and 28 February 2017 (February 2017 Updates), this document provides further updates to these instructions taking into account comments received from the industry and latest international developments. The SRI 1, SRI 2, January 2017 Updates, February 2017 Updates and this June 2017 Updates should be read together as the complete set of instructions.

Updates to SRI

This section includes new instructions to replace or supplement the existing instructions in the SRIs.

SRI 2

C.2.1 Data field "Asset Class"

This paragraph replaces the existing **Paragraph 17** of the SRI 2:

17. The value of the data field "Asset Class" is a default value set by the system based on the asset class selected when choosing a template for reporting the transaction. As mentioned in paragraph 14 above, reporting entities should agree on which asset class is the key or primary one when the transaction is reportable by both counterparties to a trade, and choose which asset class template to use accordingly. This also applies to cases where the transaction involves paper gold (XAU) as it is not our policy intention to prescribe which asset class reporting entities should classify transactions but rather that it be agreed among the counterparties. Reporting entities should also find a reporting template which best captures the trade structure of the trade to be reported. For transactions involving paper gold and a currency, reporting entities may follow market practice in terms of the classification of asset class. As such, if market practice is to treat a transaction with paper gold and a

currency as belonging to the FX asset class, the FX template should be used for reporting, provided that the two trade parties agree to that effect.

Two new sub-sections added under **C.2 Information and particulars relating to the class or type of product to which the transaction belongs**

C.2.4 Reporting FX Swap

This paragraph is added after the existing **paragraph 20** of SRI 2:

For the backloading of FX Swap transactions, reporting entities will not be required to backload the near leg of the FX Swap transaction if the near leg will mature on or before the end of grace period. However, the corresponding far leg is still required to be backloaded if it will not mature on or before the end of grace period. For such cases, the data field "Swap Link ID" can be left blank.

C.2.5 Reporting Zero Notional Swap

For reporting swaps which will still be regarded as outstanding when the trade is downsized to zero notional amounts and subject to being upsized again at a later time, the trade that is reported under the Standard template has to be terminated first in the HKTR and reported as a new trade using the same identifiers (e.g. USI, TID) once the swap is upsized again. If the trade is reported under the Other template, no trade termination is needed but its notional amount has to be amended when downsized to zero and subsequently upsized.

Three new sub-sections added under **C.3 Dates and periods relating to the transaction**

C.3.3 Data field "Effective Date"

When reporting a credit derivative transaction with a credit index as the underlying asset, it is acceptable for reporting entities to follow market convention and agree with their counterparties to use the issuance date of the credit index as "Effective Date" for the trade.

C.3.4 Data field "Agreement Date"

When backloading additional information required under phase 2 reporting for already reported transactions from phase 1 using an Amendment template, it is acceptable to use the backloading submission date as the “Agreement Date” for the reporting entry so that the backloading entry will not be treated as a late submission by the HKTR system. This is the only exception. In all other cases, reporting entries should report the event trade date of the post-trade event (i.e. the date of agreeing the post-trade event). Note that the “last event date” or “date of latest position” is also acceptable for backloading purposes, but using these dates will appear in the late submission report generated by the HKTR system. However, from the compliance perspective, regulators will not treat these entries as late submissions if the “last event date” or “date of latest position” is used for backloading the additional information.

C.3.5 Reporting transactions with open-ended maturity date

For certain transactions where there is no specific final maturity date at the time the transactions were entered into (e.g. an open-end total return swap trade), reporting entities should agree with their counterparties and populate the relevant maturity or termination dates of the transaction with “9999-12-31” under both the Standard template and Other template.

A new sub-section added under **C.4 Information and particulars relating to the counterparties of the transaction**

C.4.5 Data fields relating to Names

Reporting entities are reminded to provide the registered legal name of the party in full. For example, “Bank of East Asia” is not acceptable, but should be entered as “Bank of East Asia, Limited (The)”.

C.5.1 Data field “Underlying Asset” in the Equity template

This paragraph is added after the existing **paragraph 31** of the SRI 2:

For the sub-field “Exchange ID”, if MIC code is not available for a particular exchange, reporting entities may populate the sub-field with the full name of the relevant exchange.

C.5.1.1 Data field “Underlying Asset” in the Equity templates where the asset type is a single share or shares in a basket

This paragraph is added after the existing **paragraph 33** of the SRI 2:

When reporting an asset type of share using the Equity Standard template or Other template where the share is listed on multiple exchanges, reporting entities should populate the sub-field “Exchange ID” with the Exchange ID of the primary exchange of the share.

C.5.1.2 Data field “Underlying Asset” in the Equity templates where the asset type is an index/ indices

This paragraph is added after the existing **paragraph 35** of the SRI 2:

When reporting an asset type of index/ indices in the Equity Standard or Other template, the sub-field “Exchange ID” is not applicable and can be left blank.

C.5.3 Data field “Reference Obligation” in the Credit templates

This paragraph is added after the existing **paragraph 39** of the SRI 2:

The “Place of Incorporation” of the “Reference Obligation” for credit derivatives refers to the place of incorporation of the reference entity (i.e. the issuer of the reference obligation), not the place of issuance or listing of the reference obligation.

C.5.4 Data field “Index Reference Information” in the Credit templates

This paragraph is added after the existing **paragraph 40** of the SRI 2:

The “Place of Issuance Reference” of the data field “Index Reference Information” for credit derivatives refers to the place of incorporation of the reference entities of the underlying index of the credit derivatives, not the place of incorporation of the issuer of the index. For example, if the underlying index comprises a group of European reference entities, the “Index Reference Information” should be populated with “Europe”. Apart from ISO 3166 country list, this field also supports other values as stated in the AIDG.

Three new sub-sections added under **C.5 Information and particulars relating to the pricing of the transaction**

C.5.7 Data field “Initial Price” in the Equity template

When reporting equity forwards and contracts for differences, Equity Other template should be used. The forward price of equity forwards and the opening price of contracts for differences should be used to populate the field “Initial Price”.

C.5.8 Data field "Option Entitlement" in the FX, Equity and Credit templates

For FX options, the units of underlyer per option for the data field "Option Entitlement" should be based on the notional currency and the number of units should be the amount in that currency. The notional currency should be the first currency in the currency pair when sorted alphabetically. For example, an FX option with the currency pair EURUSD would have the unit as one euro and the number of units would be the amount in euros. If the said option buyer will receive EUR 1,000,000 upon exercising the option, the data field "Option Entitlement" should be populated with "1,000,000".

For equity share options, the data field "Option Entitlement" should be populated with the number of the underlying shares per option. For equity index options, the data field "Option Entitlement" should be populated with the contract multiplier, i.e. the value of each index point movement.

For standard credit index options where the market standard is 1 to 1, the data field "Option Entitlement" should be populated with "1".

C.5.9 Data sub-field "Currency" for notional amounts

For reporting transactions with notional amounts denominated in CNH, which is not currently in the ISO 4217 list supported by the HKTR, the "Currency" field should be populated with "CNY" first, to be supplemented by populating "CNH" in the data field "Offshore Currency Indicator" which accepts currency codes not supported by the ISO 4217 list. The data field "Offshore Currency Indicator" is not a mandatory data field but is intended to facilitate reporting of transactions involving CNH in response to market participants' request. We expect that "CNH" will be added to the list of supported values under the standard "Currency" data fields in the future.

C.5.10 Reporting IRS Cross Currency Resettable Swap

When trading a cross currency swap where its initial exchange rate is subject to reset at a later time (e.g. T+2, T+3), the initial exchange amount will be unknown at trade execution. Therefore, when reporting such transactions to the HKTR, there is no notional amount to be provided. Since notional amount is a required field under the IRS Standard template, reporting entities have to first report this type of trades by using the IRS Other template, where the notional amount can be left blank. Subsequently, when the initial exchange rate is reset, reporting entities should report the corresponding notional amount per the reset rate with the Amendment template.

A new section added titled **C.11 Information and particulars relating to the execution of the transaction**

C.11.1 Data field "Execution Type"

When reporting on how a trade is executed, reporting entities should select among the provided values of "Electronic", "Voice" or "Written" according to their own internal classification based on the detailed description of the values, which follows the FpML standards (please refer to the AIDG). The value "Electronic" refers to an "execution via electronic execution facility, derivatives contract market, or other electronic message such as an instant message". Examples include emails, and execution via Bloomberg and Reuters dealing. Please note that it is not a matching data field, i.e. reporting parties do not have to agree with their counterparties on the value for input.

C.11.2 Data field "Execution Date Time"

The data field "Execution date time" is mandatory. Similar requirements are found in other reporting regimes. We accept that 'trade input time' can be used as a proxy for the field "Execution date time" as long as the reporting entities have in place a robust internal control process to ensure all executed trades are inputted into their systems within a reasonable time. Other proxies including 'the time of trade creation' and, if the trade is executed via a broker, the printed time or time stamp on the broker's confirmation are also acceptable. Please note that it is not a matching data field, i.e. reporting parties do not have to agree with their counterparties on the value for input.

For avoidance of doubt, it is acceptable to not backload this data field as additional information under phase 2 reporting for already reported transactions from phase 1. However, this information is required for new trades reported under phase 2 reporting.

<u>February 2017 Updates</u>

This replaces the clarification provided for **Paragraph 89 (ii) and (iii) Novation – regarding reporting of "Trade Date" and "Effective Date"**

The SRI originally gave reporting entities until 28 February 2017 (as in footnote 19) to comply with the requirement in section C.14 with respect to reporting of information relating to dates of the novation. In light of the consultation on reporting novation transactions by the Committee on Payments and Market

Infrastructure - International Organization of Securities Commissions (CPMI-IOSCO) Harmonization Group and in the expectation that further guidance will be released following the consultation and related discussion, the effective date for compliance with the requirements in section C.14 will be deferred until further notice. Entities may continue reporting information relating to the relevant dates as they are doing currently. Entities that have already adopted the requirements in section C.14 do not need to change back. Further guidance on the reporting treatment relating to dates will be issued once international standards have been published. In the meantime, entities may adopt different approaches to reporting dates of novation transactions, discrepancies in reports from the counterparties to some trades will be unavoidable. Reporting entities are not required to reconcile discrepancies arising from differences in the reporting of Trade Date/Effective Date until the further guidance on reporting of such information is issued but should continue to do so for discrepancies arising from all other causes.

Clarifications on existing instructions in the SRI 1 and SRI 2

The following provides further clarifications on the instructions already provided in the SRIs.

Clarifications on existing instructions in the SRI 1:

Sections C.1 and C.2

We have received some submissions where the data fields "Reference Branch of Trade Party" and "Desk ID" are not reported in the correct format. Reporting entities are reminded to report these data fields according to the existing instructions provided. For instance, for an OTC derivative transaction transacted through a trading desk in Hong Kong, we would accept an input of "HKG", being the three-letter jurisdiction code stated in Annex 1. We do not accept submissions in any other formats not specified in the SRI. Some unacceptable formats include "Banking", "Hong Kong", "Trading" and "HK".

Clarifications on existing instructions in the SRI 2:

Existing paragraph 31:

It is clarified that the field value “Share” can also be used for other single name asset type such as exchange traded fund, warrant or mutual fund when the Standard template is used to report the transaction.

Existing paragraph 35:

It is clarified that in the event that ISIN is not available for the underlying index/ indices, reporting entities are given an additional option apart from selecting “SingleOther” from the sub-field “Identifier Type” and populate the sub-field “Instrument ID” with the full name(s) of the underlying index/ indices as assigned by the index provider. Reporting entities may also use any one of the third party assigned identifiers supported by HKTR (i.e. RIC, SEDOL, CUSIP, Valoren, Bloomberg or SICC). In either case, reporting entities should agree with their counterparties what is to be used for reporting to avoid mismatch. If a third party assigned identifier is used, reporting entities are encouraged to use the same identifier for other trades with the same underlying index/ indices to the extent possible.

Existing paragraph 49:

Paragraph 49 mentions that “discrepancies in valuations are also allowed, as long as they are in line with the threshold stipulated by the Risk Mitigation Standards (RMS).” The RMS can be found in the Supervisory Policy Manual – Non-centrally Cleared OTC Derivatives Transactions – Margin and Other Risk Mitigation Standards (CR-G-14) issued by the Hong Kong Monetary Authority. It is clarified that for transactions not covered by the RMS, it is recommended the reporting entities refer to the guidance stipulated by the RMS as well, although it is not a mandatory requirement.