



HONG KONG MONETARY AUTHORITY
香港金融管理局

9 September 2015

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**Reviewing and resolving unmatched and unlinked transactions
at the OTC Derivatives Trade Repository of the HKMA**

I am writing to draw to your attention that the HKMA has issued a circular on 7 September 2015 to remind Authorized Institutions (AIs) to get prepared for complying with the mandatory reporting requirements under the Securities and Futures (OTC Derivative Transaction – Reporting and Record Keeping Obligations) Rules (the Reporting Rules) effective from 10 July 2015. AIs are also reminded to critically review and resolve unmatched and unlinked transactions identified by and advised to them by the system of the OTC Derivatives Trade Repository of the HKMA (HKTR), in accordance with the procedures specified by the HKTR in the relevant manuals and operating procedure. A copy of the circular is enclosed for your easy reference.

To help reporting entities get ready for reporting, the HKTR has been organising training sessions on the use of the HKTR system, which also cover the procedures for resolving unmatched and unlinked transactions. The two remaining training sessions scheduled for this year will be held on 28 October and 2 December. The schedule of the training sessions for the first half of 2016 will be set and announced in the fourth quarter of 2015. Alternatively, reporting entities may download video demonstration (English and Cantonese) on the use of the HKTR system for reporting, which covers all the information provided during a training session, for self-training or refreshing the understanding of the relevant procedures - <https://hktr.hkma.gov.hk/>

If you have any enquiries, please contact the HKTR at (852) 8100 3115 or e-mail to hktr@hkma.gov.hk.

Yours sincerely,

(Colin Pou)

Head, Payment Systems Operation Division
Financial Infrastructure Department

Encl.

c.c. Mr Rico Leung, Senior Director, Supervision of Markets, Securities and Futures
Commission



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B9/135C

7 September 2015

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Attachment

Arthur K. H. Yuen JP
Deputy Chief Executive

阮國恒 JP
副總裁

Reporting of OTC derivative transactions

As you are aware, the G20 called for a reform of OTC derivatives market globally to improve transparency, reduce counterparty risk, protect against market abuse, and enable regulators to better assess, mitigate and manage risk in the OTC derivatives market. As the first part of Hong Kong's efforts in its participation in this international initiative, the Securities and Futures (OTC Derivative Transaction – Reporting and Record Keeping Obligations) Rules (“the Reporting Rules”) was promulgated and came into effect on 10 July 2015. Further to HKMA's circular letter of 10 July 2015, I am writing to remind Authorized Institutions (“AIs”) to get adequately prepared for complying fully with the Reporting Rules, including putting in place adequate internal policies, systems and control procedures and staff training.

To facilitate the implementation of the mandatory reporting requirements, the HKMA has developed the Hong Kong Trade Repository (“the HKTR”) for prescribed persons to report their OTC derivatives transactions. Since the information in the HKTR will be used by the regulators to perform market surveillance, it is very important that the information provided by reporting entities to the HKTR should be accurate and complete. AIs are reminded that it is their responsibility to submit reportable transactions within the prescribed timeline and ensure that the transaction information provided to HKTR is accurate and complete. Failure to do so will be regarded as a breach of the reporting requirements.

Since 5 August 2013, the HKMA has, as an interim arrangement, required all Licensed Banks to report their OTC derivatives transactions to the HKTR. The

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interim arrangement ceased when the Reporting rules came into operation. The HKMA has performed an analysis of the transactions reported in the interim reporting period, and would like to share some important findings which are related to the quality of the data kept in the HKTR. Around 32,000 transactions (or about 34% of the total number of transactions reported during the period) were found to be unlinked, that is, they cannot be matched with other transactions. There are various possible reasons rendering a transaction unlinked, and the major ones include:

- some important transaction information (e.g. unique transaction identifier, settlement currency, confirmation platform identity) was incorrect or missing;
- the counterparties had a reporting obligation but forgot to submit the transactions to the HKTR; and
- the counterparties had no obligation to report (for instance, because the transactions were not conducted in Hong Kong) but the confirmation of this from the counterparty concerned was not received.

Of the unlinked transactions, about 3,500 transactions (or 11%) were unlinked due to incorrect or omission of information, and about 1,600 of these discrepancy transactions have more than two discrepancies. The common errors and omissions are listed out in the Annex.

To help clear the discrepancy and unlinked transactions in the HKTR database, AIs are advised that as a standard practice, they should critically review the transactions listed out in the reports issued by the HKTR, including but not limited to the “discrepancy report”¹ and “uncertain unlink report”², and take appropriate rectification actions as follows:

- (i) for linked but unmatched transactions because of discrepancies, an AI is required to liaise with its counterparty and sort out the discrepancies within three business days after receiving the discrepancy report from HKTR;

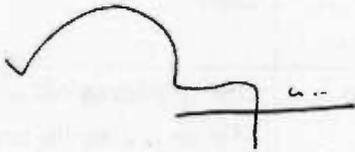
¹ The HKTR issues a “discrepancy report” to (i) the counterparties of a transaction which was linked but unmatched because of some discrepancies in the key terms, and (ii) the Hong Kong incorporated AI which was a counterparty of an unlinked transactions (i.e. a transaction in respect of which the HKTR system cannot find an identical transaction in the opposite side).

² HKTR also issues an “uncertain unlink report” to a TR member which is not a Hong Kong incorporated AI in respect of unlinked transactions.

- (ii) for unlinked transactions, an AI should review and ascertain whether it has a reporting obligation in respect of these transactions. For transactions that the AI has a reporting obligation, it should submit the transaction reports as required in accordance with the Reporting Rules and the supplementary guidance issued by the HKMA regarding transition from the interim reporting requirements. For transactions that the AI does not have a reporting obligation, it should confirm this to HKTR as soon as practicable by using the suppress function, but in any case not later than 9 May 2016 (i.e. one month after the end of the grace period) for transactions entered into before the end of the concession period (i.e. before 10 January 2016), or within three business days after receiving the uncertain unlink report from HKTR for transactions entered into on and after 10 January 2016.

AIs are expected to attend briefing sessions organised by the HKTR on procedures to submit transactions, amend information errors, or suppress the uncertain transactions if it is ascertained that the institutions do not have a reporting obligation. Please refer to the relevant reference manuals of the HKTR for such procedures. If you have any questions about the HKTR's procedures, please contact the HKTR at (852) 8100-3115 or e-mail to hktr@hkma.gov.hk.

Yours faithfully,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line and a vertical stroke.

cc. HKTR (Attn.: Mr. Colin Pou)

Errors and Omissions in Discrepancy Transactions Report

Field names	Common errors and omissions	Corrective actions
Settlement Currency	Currency which was the same as the principle currency was given.	Should leave this field blank, unless the settlement currency is different from the principle currency.
Confirmation Platform ID	“Papers” or “Others” was wrongly stated in this field.	Should state the code of the platform through which, or the manner in which, the trade was confirmed.
CP Trade Reference Unique Transaction Identifier - Unique Trade ID (UTI-TID) Unique Transaction Identifier (UTI) - UTI Value Unique Transaction Identifier (UTI) - Issuer ID Unique Transaction Identifier (UTI) Indicator	No reference number or wrong reference number was stated.	Should state the correct reference number.
Effective Date - Unadjusted Date Termination Date - Unadjusted Date	Adjusted dates were stated.	Should state the unadjusted dates.
Central Counterparty ID	Parties to the trade stated two different intentions.	Trade parties should agree on whether to clear the trade through a central counterparty, and if so, state the CCP's ID.
Fixed Rate Floating Rate Spread	A percentage was stated.	Should state the absolute rate and spread

Field names	Common errors and omissions	Corrective actions
Floating Rate Index	Different indices with similar names were stated, e.g. "EUR-EURIBOR-Reuters" and "EUR-EURIBOR-Telerate".	Should state accurately the name of the index to which the floating rate is benchmarked against.
Fixed Rate Party Floating Rate Party	The "fixed rate party" was wrongly stated as the "floating rate party", or vice versa.	Should state the fixed rate and floating rate party correctly.
Exchanged Currency Payer ID – First Currency Exchanged Currency Payer ID - Second Currency Exchanged Currency Payment Amount - Second Currency Exchanged Currency Payment Amount - First Currency Exchanged Currency Payment Amount Currency - First Currency Exchanged Currency Payment Amount Currency - Second Currency	While the first currency payer was stated in "Exchanged Currency Payer ID – First Currency", the second currency payment amount was stated in "Exchanged Currency Payment Amount – First Currency" and "Exchanged Currency Payment Amount Currency– First Currency", and vice versa.	Should state the first and second currency payers and corresponding payment currencies consistently.
Exchange Rate Currency Pair Basis	The "Exchange Rate Currency Pair Basis" did not reflect the direction of quotation of the exchange rate stated in the "Exchange Rate" field.	Should select the pair basis that will reflect the direction of quotation of the exchange rate stated in the "Exchange Rate" field, e.g. if the first currency is USD and the second currency is CNY, the pair basis - "Currency2PerCurrency1" should be selected in order to reflect an exchange rate of 6.4.