

**Meeting of Legislative Council
Panel on Financial Affairs
2 November 2015**

**Over-the-counter (“OTC”) Derivatives
Regulatory Regime in Hong Kong –
Phase 1 Clearing and Phase 2 Reporting**

Background

Global financial crisis in 2008



**G20 Leaders' commitment to reform of
the OTC derivatives market in 2009**



**Public consultations on the proposed regulatory regime
in Hong Kong in 2011 & 2012**



**Enactment of the Securities and Futures
(Amendment) Ordinance 2014**



**Commencement of stage 1 of the regime
(including phase 1 reporting) on 10 July 2015**



Stage 1 of the Regime – Phase 1 Reporting

- **Commenced on 10 July 2015**
- **Mandatory reporting of certain –**
 - **interest rate swaps (“IRS”)**
 - **non-deliverable forwards (“NDF”)**



Next Stage of the Regime

- **Phase 1 clearing**
- **Phase 2 reporting**



Phase 1 Clearing

- **Certain standardized IRS containing certain features**
- **Dealer-to-dealer transactions only**

Transactions subject to Mandatory Clearing

	IRS that are fixed-to-floating swaps and basis swaps				
Currency	HKD	USD	EUR	GBP	JPY
Floating rate index	HIBOR	LIBOR	EURIBOR	LIBOR	LIBOR
Tenor	28 days to ten years				
Constant notional	Yes				
Optionality	No optionality that might affect the amount, timing or form of payments made under the IRS.				

	IRS that are overnight index swaps		
Currency	USD	EUR	GBP
Floating rate index	Federal funds	EONIA	SONIA
Tenor	Seven days to two years		
Constant notional	Yes		
Optionality	No optionality that might affect the amount, timing or form of payments made under the IRS.		



Dealer-to-dealer Transactions

- **The parties to the transaction must be an AI, AMB, LC or the overseas equivalent of an AI or LC, and at least one party must be an AI, AMB or LC; and**
- **both parties to the transaction must have outstanding OTC derivative positions that exceed the clearing thresholds.**

Clearing Thresholds

- To have multiple thresholds, each tied to a particular three-month calculation period.
- To have different thresholds for different categories of dealers.
- To compare average positions during a particular calculation period to the threshold stipulated for that calculation period.

Threshold for local AIs, AMBs or LCs	Threshold for overseas AIs, AMBs or LCs		Threshold for overseas equivalent of an AI or LC
	Positions booked in HK	Global positions	
US\$20 billion	US\$20 billion	US\$1 trillion	US\$1 trillion



Exemptions and Relief

- **Intra-group exemption**
- **Jurisdiction-based exemption**
- **Substituted compliance**



Designation of Central Counterparties (“CCPs”)

- **Both local and overseas CCPs may apply.**
- **Must either be –**
 - **a recognized clearing house; or**
 - **an authorized automated trading services provider.**



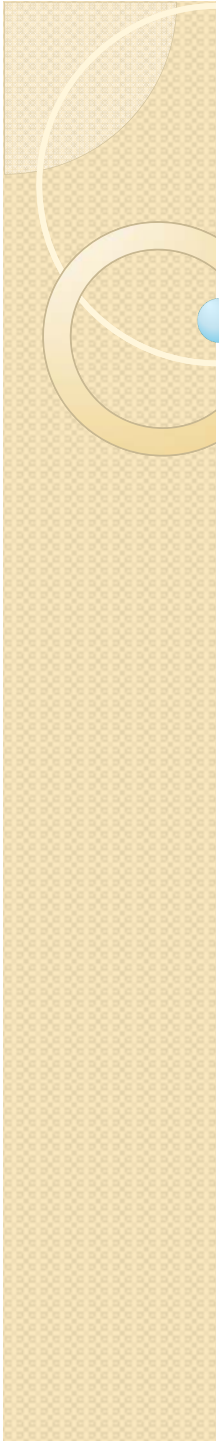
Phase 2 Reporting

- **Reporting of transactions in *all* OTC derivative products**
- **Expanded scope of transaction information to be reported**
- **Six-month deferral to ensure that market participants have enough time to set up or enhance their systems and system connection**



Timetable

- **Consultation conclusions in early 2016**
- **Tabling of subsidiary legislation before LegCo in Q1 2016**
- **Phase 1 clearing by mid-2016**
- **Phase 2 reporting by early 2017
(i.e. after a six-month deferral)**



End of presentation

Thank you!