

**Subcommittee on Three Pieces of Subsidiary Legislation Relating to
Over-the-counter Derivative Transactions**

**Follow-up actions arising from the discussion at the meeting
on 12 June 2015**

Purpose

This paper sets out the Administration and regulators' response to Members' enquiry made at the meeting on 12 June 2015.

Response

2. An authorized institution ("AI"), approved money broker ("AMB") or licensed corporation ("LC") will be able to enjoy the "exempt person" relief if the sum of the notional amounts of all outstanding over-the-counter ("OTC") derivative transactions within the product class is below US\$30 million and it does not conduct any OTC derivative transactions in that product class in Hong Kong on behalf of an affiliate or (in the case of an AI incorporated overseas) a branch outside Hong Kong (such transactions are referred to as transactions "conducted in Hong Kong" hereafter).

3. Based on information currently available to the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC"):

- (a) there are 85 AIs or LCs with positions in interest rate swaps ("IRS"). Of these, the HKMA and the SFC expect that seven AIs (i.e. 8.2%) will enjoy the "exempt person" relief (i.e. they have IRS positions under US\$30 million and do not have any transactions in IRS "conducted in Hong Kong"). The total notional amount of the IRS transactions attributable to these seven AIs represents close to 0.003% of the total notional amount of IRS transactions attributable to the total population of 85 AIs or LCs with positions in IRS;

- (b) there are 135 AIs or LCs with positions in foreign exchange (“FX”) forwards¹ (which include non-deliverable forwards (“NDF”)). Of these, the HKMA and the SFC expect that two AIs (i.e. 1.5%) will enjoy the exempt person relief (i.e. they have NDF positions under US\$30 million and do not have any transactions in NDF “conducted in Hong Kong”). The total notional amount of NDF transactions attributable to these two AIs represents 0.0014% of the total notional amount of FX forwards transactions attributable to the total population of 135 AIs or LCs with positions in FX forwards; and
- (c) no AMBs have positions in IRS or NDF.

**Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
Securities and Futures Commission
18 June 2015**

¹ We do not currently have information to provide a breakdown between those positions which are in NDF and those which are in deliverable forwards.