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Submitted via email to [fss@hkma.gov.hk](mailto:fss@hkma.gov.hk) & [otcconsult@sfc.hk](mailto:otcconsult@sfc.hk)

Hong Kong Monetary Authority  
Financial Stability Surveillance Division  
55/F Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

The Securities and Futures Commission  
Supervision of Markets Division  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Re: Mandating the use of Legal Entity Identifiers for Reporting Obligations

In response to the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) consultative paper on enhancements to the over the counter (OTC) derivatives regime for Hong Kong,<sup>1</sup> the Global Financial Markets Association (GFMA)<sup>2</sup> is pleased to provide you with our comments. We limit our comments specifically to the proposal to mandate the use of the Legal Entity Identifier (LEI) for reporting obligations (the LEI Proposal).<sup>3</sup> As outlined below, we strongly support the LEI Proposal.

The LEI is an inexpensive, reliable, and standardized legal entity identification system. As outlined in the LEI Proposal, the GFMA believes that the requirement for market participants to use the LEI for transaction reporting will improve transparency, enable aggregation of position information and permit regulators and others to efficiently identify counterparty and systemic risks. As the LEI Proposal observes, market participants and regulators are seeing the benefits of increased LEI adoption in the form of reduced transactional and operational friction, reduced onboarding costs and processing times, simplified reconciliation throughout the technology ecosystem, and improvements to risk management systems, among other benefits.<sup>4</sup>

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<sup>1</sup> <http://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2018/20180327e5a1.pdf>

<sup>2</sup> The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.

<sup>3</sup> H.K. MONETARY AUTH. & SEC. & FUTURES COMM'N, JOINT CONSULTATION PAPER ON ENHANCEMENTS TO THE OTC DERIVATIVES REGIME FOR HONG KONG TO— (1) MANDATE THE USE OF LEGAL ENTITY IDENTIFIERS FOR THE REPORTING OBLIGATION, (2) EXPAND THE CLEARING OBLIGATION AND (3) ADOPT A TRADING DETERMINATION PROCESS FOR INTRODUCING A PLATFORM TRADING OBLIGATION, available at <http://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2018/20180327e5a1.pdf>. (hereinafter the LEI Proposal).

<sup>4</sup> "The Legal Entity Identifier: The Value of the Unique Counterparty ID" published by McKinsey & Company and Global Legal Entity Identifier Foundation in October 2017.

With the LEI Proposal, the HKMA and SFC join a broad community of global regulators who now require the LEI for critical reporting.<sup>5</sup> Regulators globally play a key role in facilitating the expansion of the LEI system and its related benefits. Requiring LEIs to be used broadly in regulatory reporting and other supervisory practices creates a virtuous cycle that, in increasing the adoption of the LEI, increases the utility of LEI data for all participants. With recent successes in the European Union's MiFID II LEI reporting requirements, the total number of LEIs issued globally is over 1.15 million and rising. The LEI Proposal builds on this success.

The GFMA generally supports the phased implementation approach outlined in Paragraph 31 of the LEI Proposal. We are encouraged by the fact that, as of February 2018, approximately 90% of outstanding transactions reported to the Hong Kong Trade Repository (HKTR) can either be mapped to an LEI or were reported with an LEI and that these transactions can be linked to the entities listed in Paragraph 28 under groups (a) to (e).<sup>6</sup> As such, the GFMA believes that the phase 1 reporting deadline for these entities of approximately December 2018 is reasonable and achievable. The GFMA is aware, however, that 'other entities that are transacting parties' (Paragraph 28(f)) included in phase 2 is a category of market participant that is particularly disinclined to voluntarily register for an LEI. Consequently, the proposed January 2020 phase 2 implementation deadline for Paragraph 28(f) entities will require significant socialization and outreach to these entities. As such, the GFMA would recommend that the HKMA and SFC engage with other regulators, particularly in the Asia Pacific region, to ensure a smooth implementation of the LEI requirement for Paragraph 28(f) entities.

The GFMA also supports the HKMA and SFC proposal to require an LEI on new trades and life-cycle events that take place on or after the phased implementation dates only.<sup>7</sup> A new trade or life-cycle LEI requirement that begins on a specific date creates a clear and unambiguous time for the technology teams tasked with meeting new requirements to accomplish necessary changes. A requirement made retroactive to past transactions would create significant technology and compliance challenges without a corresponding benefit.

Overall, the GFMA has been supportive of the Global LEI System since its inception, working closely with the Global LEI Foundation (GLEIF) and providing industry input to the LEI Regulatory Oversight Council (LEI ROC), on which the HKMA's Stanley Chan serves as an Executive Committee member. We appreciate the valuable work of the HKMA, SFC and LEI ROC to promote and improve the LEI System and welcome jurisdictional regulator initiatives seeking to employ the LEI System in their own regulatory frameworks.

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<sup>5</sup> Authorities such as those in the European Union, Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission of the United States, Reserve Bank of India and certain Canadian provincial regulators have mandated the use of LEIs and regulators in many other jurisdictions have incorporated LEI requirements in rulemakings and legislation. For a complete list of the current and proposed LEI regulatory activity, please see the following page on the GLEIF website: <https://www.gleif.org/en/about-lei/regulatory-use-of-the-lei#>.

<sup>6</sup> LEI Proposal, Paragraph 30.

<sup>7</sup> LEI Proposal, Paragraph 76:

Subject to the completion of this consultation and support from the market, we aim to adopt our trading determination process by June 2018, and the first phase of mandating the use of LEIs to identify entities in trade reporting by the end of 2018.

Hong Kong Monetary Authority & the Securities and Futures Commission

April 27, 2018

Page 3 of 3

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Thank you for the opportunity to comment on the LEI Proposal. Please feel free to contact Will Leahey ([wleahey@sifma.org](mailto:wleahey@sifma.org) or +1 (212) 313-1127) should you desire any additional information.

Sincerely,

A handwritten signature in black ink that reads "Allison Parent". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Allison Parent  
Executive Director  
Global Financial Markets Association