FIX PROTOCOL
INDUSTRY-DRIVEN MESSAGING STANDARD℠

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Securities and Futures Commission,
8th Floor, Charter House,
8 Connaught Road Central,
Hong Kong

FIX Protocol Ltd (FPL) offers comments on OTC Derivatives regulatory regime for Hong Kong

Dear Sirs,

Thank you for the opportunity to offer comments on this important regulatory initiative in Hong Kong.

FIX Protocol Ltd. (FPL) is a not-for-profit, industry standards organization that sits at the heart of the global electronic trading community. It is industry-driven, independent and neutral, with a membership that comprises of over 260 firms from the global financial services industry.

FPL aims to address the business challenges impacting the trading community through the use of standards. Central to these efforts is the continuous development and promotion of the FIX Protocol, the non-proprietary, free and open de-facto messaging standard used for pre-trade, trade and post-trade communication globally. It is used in all asset classes including Equities, Derivatives, Foreign Exchange and Fixed Income. FIX is utilised by virtually every major stock exchange and investment bank as well as the world's largest clearing houses, clearing firms, central clearing corporations, investment managers and money managers.

FPL is involved with the regulation of OTC Derivatives globally. Currently FPL members are serving on a CFTC advisory committee, a group focused on developing a definition of high frequency trading (HFT) and the appropriate regulatory and policy responses over such market activity. FPL also responded to the ESMA consultation on technical regulatory requirements for the regulation of OTC Derivatives, CCPs and Trade Repositories, recommending that ESMA strive to utilize common semantics for reporting requirements to trade repositories that are similar to other jurisdictions to ensure higher levels of data quality and reduce implementation costs. It is our understanding that a key objective of the regulatory initiative on OTC Derivatives is to reduce counterparty risk by defining a framework, and specifying risk mitigation techniques for safe and resilient CCPs. For many years, the financial services industry has utilised the FIX Protocol for trade execution and post-trade processing, including fulfillment of clearing and reporting obligations to CCPs for listed derivatives. In addition, the FIX Protocol is being leveraged for purposes of risk mitigation as well as reporting to regulators.

As an existing open solution used by thousands of firms in the financial services industry globally, the use of an established messaging standard such as FIX would assist in managing the cost and timeframe for the implementation of the proposed initiatives defined by HKMA / SFC.

New regulation is often costly for market participants; however, the additional financial burden can be reduced by framing new rules and regulations around the use of a widely used non-proprietary, free and open standard such as the FIX Protocol. FPL has worked closely with some of the following regulatory bodies on important regulatory initiatives across the globe:

- CFTC (U.S. Commodity Futures Trading Commission) – Enhancements were made to the FIX Protocol to support regulatory trade reporting requirements for listed derivatives and OTC derivatives (in compliance with the Dodd-Frank Act), including large trader reporting and swaps data repository reporting;
- FINRA (Financial Industry Regulatory Authority) – FIX is supported for fixed income securities trade reporting to TRACE;
- ASIC (Australian Securities and Investments Commission) – ASIC published FIX requirements for the disclosure and reporting of short sales;
- IIROC (Investment Industry Regulatory Organization of Canada) – IIROC adopted FIX for market surveillance and transactional reporting. FPL is presently working with IIROC and the Financial Information Forum (FIF) in ensuring FIX capability for a new short sale rule.

FPL has ongoing cooperation with FPL member and non-member exchanges globally, which in practical terms in Asia includes soft consultations and technical knowledge sharing with many of the region's leading exchanges including the Hong Kong Stock Exchange, Hong Kong Mercantile Exchange, Singapore Stock Exchange and Shanghai Stock Exchange.

FPL also has ongoing co-operations with many industry associations such as the Investment Management Association (IMA), Bundesverband Investment and Asset Management e.V. (BVI) and Association for Financial Markets in Europe (AFME) and also specifically relevant to this consultation:

- International Swaps and Derivatives Association (ISDA) / FpML - Through the FIX-FpML Collaboration Working Group, FPL and ISDA/FpML are working together to create best practices for the electronic trading of IRS & CDS using both the FIX and FpML protocols. This will help to improve the efficiency of client implementations, particularly as OTC Derivatives move to an electronic trading environment on swap execution facilities (SEFs) and organised trading facilities (OTFs).

- Futures Industry Association - FPL has had a long-standing partnership with the FIA to work together on the adoption and enhancement of FIX and FIXML in the post-trade reporting and clearing processes for listed derivatives. More recently FIA and FPL partnered to conduct the necessary gap analysis to enhance FIX and FIXML to support CFTC reporting requirements for the Dodd-Frank Act. Additionally, FIA and FPL are working together on the necessary messaging protocol required to support pre-trade credit limit checks.

Some overall themes that we would like to communicate:

- We encourage and support HKMA / SFC working with market participants and other jurisdictions to come to common semantics and alignment on terminology and data definitions in order to ensure not only data quality, but also avoid confusion on differing meanings of the terminology and data required for reporting.
- Data elements required for reporting should be well defined to ensure higher levels of data quality and provide ease of regulatory surveillance. Using the same messaging format and data semantics throughout the trade cycle from the trading environment straight through to the reporting requirements can ensure data quality and lower the cost of reporting compliance. In other words, if you trade in FIX, you report in FIX.
- The commonality of the FIX Protocol between all market participants has made compliance with meeting regulatory rules easier. A case in point: Buy and Sell Side firms are currently utilizing FIX for European Securities and Markets Authority rules (ESMA Rule 220/2012) for monitoring, auditing, and tracking algo data elements in equities, foreign exchange, and listed futures and options.
- In markets around the world, major derivatives clearing houses and their members are already using FIXML for post-trade messaging for clearing listed derivatives, and are extending their existing infrastructures and systems to facilitate clearing for OTC derivatives.
- Looking at global trends and initiatives, we strongly support a global Legal Entity Identifier (LEI) to provide for consistent reporting of entities. The appointment of two of our members to the Financial Stability Board (FSB) Private Sector Preparatory Group (PSPG) will ensure that the market participants' point of view is heard on this important issue.
- FPL recommends that where possible, HKMA / SFC should use existing standards such as ISO 4217 for currency codes and ISO 10383 for market identification.

We have the following specific comments on some details:

<u>Regulatory technical standards on OTC derivatives</u>:

- FIX supports the confirmation of transactions to the counterparty. This can be done in whatever timeframe is defined by the Regulators or the markets.
- Use of consistent non-proprietary, free and open formats, such as FIX and FIXML, and leveraging existing messaging infrastructure for connectivity between market participants

and clearing entities will lower connectivity costs and shorten implementation timelines, thereby creating a more flexible market architecture that is better able to adapt to evolving regulatory requirements.

- By way of practical work to date, FPL has been actively engaged in producing stronger standards for the consolidation of Trade Reports and Market data in Europe in accordance with the requirements laid out in MiFID and MiFIR. Initially the focus is confined to post-trade data for equity and equity like instruments but later versions will address derivatives on equity instruments and pre-trade data. FPL has worked closely with the Federation of European Securities Exchanges (FESE) on this initiative.

Regulatory technical standards on potential CCP requirements:

- Information Technology systems and outsourced services are more reliable and secure when using transparent open standards rather than a proprietary alternative.
- Transaction records and position records are currently being captured by the CCPs that use FIXML.
- FPL provided guidance on risk management best practices in electronic trading for institutional market participants. The current version covers equities and futures; however, this is a living document that will be updated and expanded continually as market practices evolve.
- We regularly work with regulators and other trade groups on messaging protocol solutions that benefit the industry.

Implementing technical standards on potential record keeping requirements for CCPs:

- As a result of FPL's work to enhance the FIX Protocol to meet regulatory requirements in other jurisdictions, record and position information would either already be supported today or can be easily incorporated into the FIX Protocol should there be gaps with the information required by HKMA/SFC.
- FIX and FIXML have been used to facilitate straight through processing in the listed derivatives markets for many years. As existing CCPs and their members extend their services to clear OTC derivatives, the use of an open standard format such as FIX and FIXML would serve as the common semantics and data format between the front-end trading and post-trade clearing, leveraging existing technology infrastructures, therefore minimizing implementation costs.

Potential regulatory technical standards on trade repositories (TR):

- FPL in partnership with the Futures Industry Association (FIA) recently worked together to enhance the FIX Protocol to support Swaps Data Repository (SDR) reporting requirements in compliance with CFTC's Parts 43 and 45 rules of the Dodd-Frank Act. The first phase of the enhancements covers the ability for FIX and FIXML to be used to report CDS and IRS trades natively in FIX to an SDR. Subsequent phases of the enhancements will cover the other asset types required by CFTC. At least two major TRs are in the final stages of evaluation to use FIXML for their implementation.

- *Modified trades*: There are differing ways of handling the reporting of modified trades. We suggest that HKMA / SFC consider how other regulatory regimes are looking at this and try to align the reporting requirements in order to minimize the burden on reporting entities, especially for those firms that have to report across jurisdictions.
- HKMA / SFC should consider aligning with the other regulatory regimes on the trade ID convention to ensure cross jurisdiction compatibility and avoid creating an unnecessary burden on trading systems and confirmation venues.

Future Implementation Impact Assessment:

- Using a common messaging standard such as FIX can reduce implementation costs and timelines.
- FIX is used for reporting to other regulatory bodies such as CFTC, ASIC, IIROC, and FINRA.
- FIX has the flexibility to handle different timeframes of reporting.

In summary, other than having a role in helping facilitate institutional feedback from trading practitioners, FPL believes we can also assist HKMA / SFC and the industry by being a standard point of reference for trade data semantics and message format, which will facilitate quicker and less costly implementation, and allow regulators and market participants to more easily monitor compliance.

FPL is willing to participate with HKMA / SFC in further industry discussions on this topic and we hope to assist you in implementing these important regulatory initiatives.

Thank you for your consideration.

Sincerely,

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