Financial Institutions

Call to Action: Preparing for Changes to the OTC Derivatives Reporting Regime

Introduction

The Singapore requirements on reporting of specified over-the-counter ("**OTC**") derivatives contracts are set out in Part 6A of the Securities and Futures Act 2001, read together with the detailed regulations set out in the Securities & Futures (Reporting of Derivatives Contracts) Regulations ("**SF(RDC)R**") ("**OTCD Reporting Regime**").

The OTCD Reporting Regime will undergo a major update. This is as a result of the consultation paper published by the Monetary Authority of Singapore ("**MAS**") in 2021 and the response to feedback received on the consultation paper ("**Response**") in May 2023, available here. The SF(RDC)R will be amended, and new Guidelines to the SF(RDC)R ("**OTCD Reporting Guidelines**") will be published.

The upcoming changes are a result of the publication of various technical guidance papers by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions ("**CPMI-IOSCO**") with the goal of facilitating the aggregation of OTC derivatives data through standardisation and harmonisation of data elements. This will allow data to be of higher quality and enable MAS to better monitor systemic risks and further use the data for supervisory and market surveillance purposes.

The regulatory amendments are expected to come into effect in **October 2024**. In this Update, we highlight the key changes, along with our practical implementation pointers.

Key Changes

Briefly, the changes to the OTCD Reporting Regime include:

(a) **Reporting of UTI**: Reporting entities will be required to report a unique transaction identifier ("**UTI**") that is uniquely assigned to each OTC derivatives contract, and which should remain as the identifier throughout the life of the contract. Only one entity should be responsible for generating the UTI, and this is to be determined in relation to the waterfall of factors ("**CPMI-IOSCO Waterfall**"). Details of the responsible party generating the UTI in accordance with the CPMI-IOSCO Waterfall will be set out in the OTCD Reporting Guidelines. Although the CPMI-IOSCO Waterfall is the default method, reporting entities are also given latitude to instead agree bilaterally on who should be the UTI generating entity.

(b) **Changes to reportable data fields**: There will be additions and amendments to the reportable data fields in the First Schedule to the SF(RDC)R. This includes: (i) the adoption of a global unique product identifier ("**UPI**"); (ii) inclusion of data fields for "Package Identifier", "Asset Class" and "Contract Type"; (iii) direction of the trade; and (iv) FX swap link IDs. Further explanatory notes to the reportable data fields will be set out in the OTCD Reporting Guidelines. In relation to UPI, MAS will allow only the use of UPI generated by the Derivatives Service Bureau Limited, when it is available. Until such time, UPI may be reported using the International Swaps and Derivatives Association product taxonomy and product codes made available by the licensed trade repository or licensed foreign trade repository.

(c) **Adoption of ISO 20022 Standard**: Reporting entities will be expected to adopt the ISO 20022 XML format when reporting derivatives contracts. Outstanding derivatives contracts with a maturity date of six months or more from the commencement date in October 2024 will have to be re-reported in the ISO 20022 XML format, where there are changes to existing reportable data fields. However, information for new reportable data fields need not be reported during re-reporting.

Further details on the upcoming amendments can be found in our earlier Client Update, available here.

Our Comments

The timeline towards the commencement date of October 2024 is relatively short. There are various practical aspects to consider. It is reasonable to assume that various functions within a firm would have to work together to prepare for compliance with the amended OTCD Reporting Regime. As such, we encourage firms to form working groups / taskforces. Below are some critical implementation points to consider:

(a) **Policies and procedures**: Reporting entities are expected to assess and establish appropriate policies and procedures to ensure that it can fulfil its obligation to generate the UTI or obtain the UTI in accordance with the OTCD Reporting Guidelines, including in accordance with the CPMI-IOSCO Waterfall steps. Firms which are subject to the OTCD Reporting Regime should commence documenting and/or reviewing and updating current policies and procedures to ensure that the processes for UTI generation and obtaining UTI for reportable OTC derivatives contracts are well-documented and implemented. Additionally, firms should also consider if their reportable OTC derivatives contracts are reported in Singapore only or in Singapore and one or more foreign jurisdictions as the UTI generating entity may depend on which reporting jurisdiction has a sooner reporting deadline under the CPMI-IOSCO Waterfall steps. Accordingly, the policies and procedures should also take into account such scenarios.

(b) **Bilateral agreements for UTI generation**: Where firms choose the UTI reporting entity based on bilateral agreement (whether based on the CPMI-IOSCO Waterfall or by election under bilateral agreement), firms should commence negotiating and documenting the agreement including on other related matters such as cost sharing for the use of the UTI generating entity's UTI generation infrastructure and the means of and timeline for delivering notice to the other party on the generated UTI.

(c) **Readiness of technical systems for transition to ISO 20022 XML**: Most firms currently rely on technological systems or solutions for the updating of reportable data internally and to the trade repository. Such a system would typically be automated in order to reduce the number of manual touchpoints and to facilitate workflow. Most of these systems would still be based on older legacy systems (such as systems that use FpML or CSV files). Given that the ISO 20022 XML files are richer and hence would result in a much larger volume of data, firms should ensure that their reporting systems are able to process larger data volumes and are able to connect seamlessly to the trade repository's systems. Where a reporting solution is used by the reporting entity, reporting entities should ensure that enough lead time is given for connecting and testing (internally and externally).

(d) **Re-reporting**: Firms should consider commencing and maintaining a list of contracts which will have a maturity of six months or more from the commencement date which would require re-reporting. The data to be re-reported should be tested for accuracy and completeness, and internal validation rules should be implemented to detect anomalies effectively.

How We Can Assist

The lawyers in our team can help you with your implementation and compliance towards the amended OTCD Reporting Regime. We have a wealth of experience in helping clients with drafting of compliance manuals and policies, and drafting and papering of derivatives documentation, to name a few. Please feel free to contact our team members below should you wish to have a discussion on this important topic.

Contacts

Regina Liew
Head, Financial Institutions Group

T +65 6232 0456

regina.liew@rajahtann.com

Larry Lim
Deputy Head, Financial Institutions Group

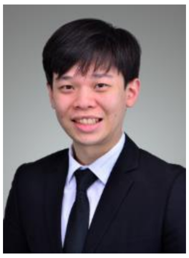
T +65 6232 0482

larry.lim@rajahtann.com

Benjamin Liew
Equity Partner, Financial Institutions Group

T +65 6232 0686

benjamin.liew@rajahtann.com



Samuel Lim
Partner, Financial Institutions Group

T +65 6232 0941

samuel.lim@rajahtann.com

Please feel free to also contact Knowledge Management at eOASIS@rajahtann.com

Regional Contacts

R&T SOK & HENG | *Cambodia*
R&T Sok & Heng Law Office
T +855 23 963 112 / 113
F +855 23 963 116
kh.rajahtannasia.com

RAJAH & TANN 立杰上海
SHANGHAI REPRESENTATIVE OFFICE | *China*
Rajah & Tann Singapore LLP
Shanghai Representative Office
T +86 21 6120 8818
F +86 21 6120 8820
cn.rajahtannasia.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*
Assegaf Hamzah & Partners

Jakarta Office
T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office
T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

RAJAH & TANN | *Lao PDR*
Rajah & Tann (Laos) Co., Ltd.
T +856 21 454 239
F +856 21 285 261
la.rajahtannasia.com

CHRISTOPHER & LEE ONG | *Malaysia*
Christopher & Lee Ong
T +60 3 2273 1919
F +60 3 2273 8310
www.christopherleeong.com

RAJAH & TANN | *Myanmar*
Rajah & Tann Myanmar Company Limited
T +95 1 9345 343 / +95 1 9345 346
F +95 1 9345 348
mm.rajahtannasia.com

GATMAYTAN YAP PATACSIL
GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*
Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)
T +632 8894 0377 to 79 / +632 8894 4931 to 32
F +632 8552 1977 to 78
www.cagatlaw.com

RAJAH & TANN | *Singapore*
Rajah & Tann Singapore LLP
T +65 6535 3600
sg.rajahtannasia.com

RAJAH & TANN | *Thailand*
R&T Asia (Thailand) Limited
T +66 2 656 1991
F +66 2 656 0833
th.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*
Rajah & Tann LCT Lawyers

Ho Chi Minh City Office
T +84 28 3821 2382 / +84 28 3821 2673
F +84 28 3520 8206

Hanoi Office
T +84 24 3267 6127
F +84 24 3267 6128
www.rajahtannlct.com

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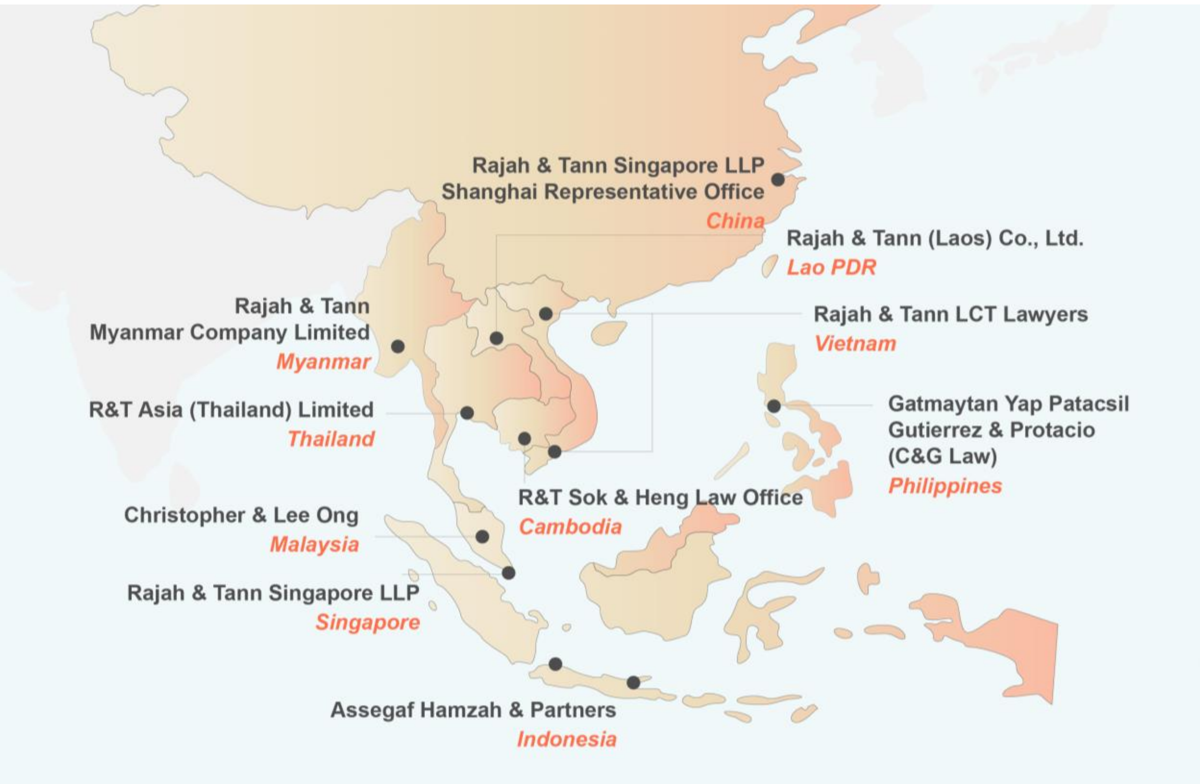

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