Data Reporting and Universal ID Requirements

CFTC, Technology Advisory Committee

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Four Key Points

1. In order to assure complete, non-duplicative and accurate reporting, a coordinated technology implementation across the entire industry will be required

2. Delivery risk should be reduced as much as possible through the use of existing robust, accurate and auditable reporting processes

3. As long as reported data contains all the required data elements and is reported on a complete, timely and accurate basis, the Commission should be indifferent as to the data collection process

4. Data standardization will be necessary for SDRs to be useful to regulators and the public, but standardization by itself will not be sufficient to truly take into account the lessons learned in the 2008 financial crisis; appropriate and timely aggregation must also be assured

Industry-Wide Implementation

- The Trade Information Warehouse for credit derivatives already complies with most proposed SDR requirements
  - Nevertheless, the process of enhancing to comply with the final rule, will still require another industry-wide implementation
  - Other aspiring SDRs will likely have the same issue
- Based on our 30 year experience, good practice requires at minimum:
  - 4 weeks or more agreeing functional specifications with users
  - 4 weeks or more writing technical specifications
  - 8-10 weeks development/coding (both SDR and user simultaneously)
  - 4-6 weeks internal regression testing
  - 6-8 weeks user acceptance testing

  While these projections are estimates, it will take several months to complete

Leveraging Existing Processes

- There is a high degree of overlap between confirmation data and all other data required to be reported under proposed Part 45 – particularly primary economic terms data
  - Given the legal risk of inaccurate confirmation, electronic confirmation processes generally involve significant safeguards to assure completeness, accuracy and “auditability”
- The main difference between confirmation data and primary economic terms data is the timeframe in which reporting is required
  - Given the extensive overlap between the two, reporting firms may not be able to report primary economic terms data any faster than confirmation data without sacrificing one or more of the above safeguards
  - The bulk of dealer confirmation submissions today for credit, rates and equity derivatives are already made intra-day on trade date
  - It may make sense to focus on continually improving the timeliness and accuracy of confirm submissions and leverage those as the means of obtaining primary economic terms data rather than requiring separate processes, both of which take place on trade date.

It's Not the How, It's the What

- Proposed Part 45 requires essentially that SDR data be kept current and up to date in all respects –critical for CFTC's regulatory missions
  - Two different methods are prescribed – daily snapshot reporting (for rates, FX and commodities) and life-cycle event reporting (for credit and equities)
  - To avoid unintended consequences *and take advantage of new technology developments*, SDRs should have the flexibility to use either method or demonstrate to the Commission the efficacy of a new one
- Examples where flexibility is currently warranted:
  - Electronically confirmed trades: *Regardless of asset class, these trades usually have life-cycle events also electronically confirmed or centrally processed. To require daily snapshots of electronically confirmed trades on top of this would add an additional, less accurate process.*
  - Paper confirmed trades: *Particularly for credit and equities, where life-cycle events are frequent, daily snapshots may be the more practical solution*
  - Commodities: *Daily snapshot reporting may be unduly burdensome for the many end-user to end-user trades (where life-cycle events are rare)*

It's Not the Who, It's the What

- Proposed Part 45 also prescribes who should report what to repositories
  - The stated intent is to select the entity for which the reported information is most readily available
  - Market participants are only now beginning to examine how best to establish the most efficient and accurate reporting process
  - If reporting would be easier, more accurate and less risky with other than the prescribed entity reporting, the CFTC should be receptive to alternatives
- For example:
  - Since SDs and MSPs can't avoid some reporting responsibilities, it in fact may be more efficient and less technologically risky to have them take on as much consolidated reporting as they can, especially where some of the required information is not readily available to the prescribed reporting parties (such as SEFs) but is available to the SDs and MSPs
  - It is more efficient and more accurate for swap counterparties to have a single point of reconciliation, i.e., reconcile to SDRs rather than to the counterparties themselves (where the opportunities for technical glitches are multiplied)

Data Standardization is Important

- Universal identifiers for all counterparties to swaps are necessary in order for regulators to accurately track counterparty exposures
  - If SDRs do not require the use of these identifiers they should be able to translate counterparty information provided to them into these identifiers
- Universal identifiers for swaps are essential inventory control tools for SDRs.
  - Production of these identifiers should either be undertaken by SDRs or be standardized so as to prevent *de facto* vertical bundling of services from upstream providers
- Standard reference data for underlying securities, issues, commodities, delivery points, etc. should also be required
  - Licensed standardization is already widely used for some products, e.g., Reuters Instrument Codes (RIC) and Markit Reference Entity Database (RED)
  - These should be mandated where use is widespread, with some consideration given to cost burdens on low volume users

Standardization Itself is Not Sufficient

- Common wisdom on contribution of OTC derivatives to the 2008 crisis:
  - Lack of reliable public information on exposures to OTC derivatives
  - Inability of regulators to understand and timely respond to large positions, like those held by AIG and its counterparties
- Complete, accurate and standardized reporting will not remedy either situation unless supported by appropriate and timely aggregation
  - Non-unified public reporting of exposures to OTC derivatives will almost always be overstated, in many instances significantly
    - *At a meeting requested by CFTC staff last July, DTCC examined the current state of exposure to the most liquid credit index – cleared net open interest /exposure was approximately $33 billion and the uncleared exposure was approximately $69 billion, which if reported separately would have left an impression of more than $100 billion of total exposure when in fact the real total exposure was no more than $47 billion (due to offsetting cleared and uncleared positions)*
  - If counterparties like AIG had wanted to hide its large one-way exposure to mortgage-related derivatives in a mandatory reporting environment, it would simply have reported different pieces to as many different SDRs as possible
    - *Prompt response to such large position taking requires intra-day aggregation*