

Hidden in Plain Sight?

Derivatives Exposures, Regulatory Transparency and Trade Repositories

Recent turbulence in various markets has raised concerns among some policymakers about their ability to see and monitor the risk exposures faced by counterparties from their derivatives transactions. Key data about these exposures is available due to mandated derivatives trade reporting requirements – via derivatives trade repositories – that have been established over the past decade.

But, for a variety of reasons, this information may well be 'hidden in plain sight' – not easily understood, not readily functional, not easily shared between policymakers, and therefore not as useful as it should be. This paper highlights relevant data that is available, discusses its value, explains the hurdles policymakers face in effectively using it, and suggests steps that policymakers might take to address and overcome these challenges to improve the usefulness and functionality of the data they currently receive.

Hidden in Plain Sight: Derivatives Exposures, Regulatory Transparency and Trade Repositories

Key data about derivatives activity and exposures is available due to mandated derivatives trade reporting requirements – via derivatives trade repositories – that have been established over the past decade:

- LEIs
- Notionals
- Mark to Market Values
- Delta/DV01

Two key factors to optimize transparency and use of data:

- Data curation and analytics to “cleanse” and standardize data
- MOUs amongst regulators to mitigate against siloed data

DTCC TIW enhances CDS market transparency

Trade repository data can be used to construct management dashboards

Future opportunities exist to further improve reporting and transparency

ESMA Analysis, Archegos and Trade Repositories

“To obtain a more granular view of Archegos exposures, we use EMIR data⁷ which cover derivatives transactions... As long as Archegos was using an EU counterparty, this counterparty had to report the derivative transaction in EMIR, which are in turn reported to ESMA...Although EMIR offers a partial view of Archegos positions since the firm was using non-EEA30 counterparties, detailed information reported to Trade Repositories provide important insights into the risks related to Archegos.

“EMIR data can also be used to analyse the mark-to-market value of the portfolio of swaps held by Archegos. Since counterparties update the value of the swaps daily, it is possible to monitor changes in the valuation of the swaps... The data show clearly that Archegos had a highly concentrated portfolio and that any negative change in the price of the underlying stocks could trigger large mark-to-market losses and substantial variation margins.”

ESMA, “Leverage and Derivatives,” May 2022

SEC Analysis, Large Position Reporting Proposal and Trade Repositories

“Using equity security-based swap data reported to SBSDRs, we first examine whether certain Schedule 13D Lead Filers would have had to report equity security-based swap positions under the reporting thresholds in proposed Rule 10B-1. Second, we analyze whether equity security-based swap positions of certain activist investors would have been reportable under some of the thresholds in proposed Rule 10B-1. Lastly, we inform on whether equity security-based swap positions of market participants generally would have been reportable under the thresholds in proposed Rule 10B-1 and several others.

“We first curate the SBSDR data. In our curated dataset, there are 8,523 unique equity security-based swap market participants identified by Legal Entity Identifiers (“LEIs”) that had at least one reported equity security-based swap position over the Sample Period...

“The SBSDR data as submitted by security-based swap market participants has several data issues. To adjust for and address these data issues, we develop a curated SBSDR dataset. The curating process involves: i) standardizing counterparty information such that all buyers and sellers are consistently identified, ii) converting all non-U.S. Dollar notional amounts to U.S. dollar notional amounts using end of day exchange rates, iii) standardizing all reference entity identifier types to a single consistent type, and iv) removing erroneous observations (e.g., notional amount reported in non-existing currencies, notional amounts per report greater than \$1 trillion, etc.).⁹

SEC DERA Paper, June 20,2023