TAC Meeting
February 10, 2014

Update on Swaps Data Reporting
Data Priorities and Next Steps

CFTC

Swaps Data: Priorities

- Harmonization of SDR Data (Data Housed at SDRs)

  - Standardization - key component to improving the ability to aggregate and analyze data

  - Consistency - the greater the consistency of data coming from the sources, the more consistent the data is at and across the SDRs

  - Capability – incorporate the best capabilities of each SDR to achieve the highest common denominator of standardization

  - Other Considerations

    » Impact on entities (data submitters) reporting to SDRs

    » Potential data uses by CFTC

    » Impact of global data standards

- Other Swaps Data Submitted to the Commission

  - Futures equivalent commodity swaps position data (Part 20)

Swaps Data: Plan

- Harmonization of SDR Data
  - Developed a team with Commission staff and all SDRs, focusing on
    - » harmonizing data already existing in the SDRs, not on requiring new data from submitters
    - » an agreement of consistent data content, not on delivery method
    - » phasing by asset class (CDS asset class first, then IRS and other asset classes)
  - SDRs provide action plans by phase and by asset class to document how they will implement data harmonization
  - Key Outcomes
    - » Implementation focuses on modifying the SDR data output to the CFTC and reducing the impact on inbound submissions to the SDRs
    - » Results will be reflected both in reports transmitted and the regulatory portal access provided by the SDRs to the Commission

- Validation of Swaps Data Submitted to the Commission
  - Continued development of completeness and accuracy checks
  - Key Outcomes
    - » Improve data quality
    - » Provide continuous feedback mechanism to submitters through updated technical guidance

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Swaps Data: Harmonization Progress

- The harmonization effort between the CFTC and the SDRs has been very valuable in making the data more consistent, and therefore more usable for regulatory purposes, but there is much more work to be done on an effort that is both complex and time intensive

- SDR Action Plans
  - Encompass multiple phases of delivery, per asset class and field by field
  - Phase 1 for CDS - SDRs have provided action plans to implement changes for 30 data elements
  - Working on Phases 2, 3 and 4 with approximately 30 additional core data elements per phase for the CDS asset class
  - Future phases will shift to other asset classes

- Examples of SDR Improvements
  - LEI/CICI Implementation
  - Data Quality Improvements
  - Regulatory Portal Search Improvements

Swaps Data: Validation Progress

- Part 20 (Ongoing)

  - First data stream at the CFTC that offered automatic validation on ingest

  - Validations examine structure of data, contents and completeness of fields, and adherence to reporting requirements

  - Data has improved, but more validations will be required to increase level of data integrity

  - Action Plan
    - » Additional validations
    - » Updated guidance

Swaps Data: Challenges

- Harmonization of SDR Data

  – Data consistency

  – Proper classification of reporting parties

  – Available product taxonomies do not provide enough depth

  – Budgeting and resources

- Validation of Swaps Data Submitted to the Commission

  – Futures equivalent commodity data (Part 20)
    - Some reporters usage is incorrect, so CFTC is updating guidance and adding more validations

Swaps Data Aggregation

- Global Trade Repository Data

  – Aggregation Feasibility Study Group (AFSG) by FSB, CPSS and IOSCO

  – CFTC (IOSCO) and the European Central Bank (CPSS) are co-chairs

  – AFSG is reviewing three options to aggregate OTCD TR data on a global basis

  – There are unique use, legal, data and technological issues and considerations associated with each option

  – The report was published for public consultation last week

    » http://www.financialstabilityboard.org/press/pr_140204.htm

    » Comments are due by the end of February

    » Final report is expected to be published in May

OCE: Weekly Swaps Report

DCR's Current Regulatory Priorities

- Ensure compliance with the Commission's clearing requirement (CEA Section 2(h)(1) and 17 CFR 50.2)

- Ensure compliance with the exceptions and exemptions to the clearing requirement (CEA Section 2(h)(7) and 17 CFR pt. 50)

- Review the swap market on an aggregate product-by-product basis regarding potential additional clearing requirements (CEA Section 2(h)(2) and 17 CFR 39.5)
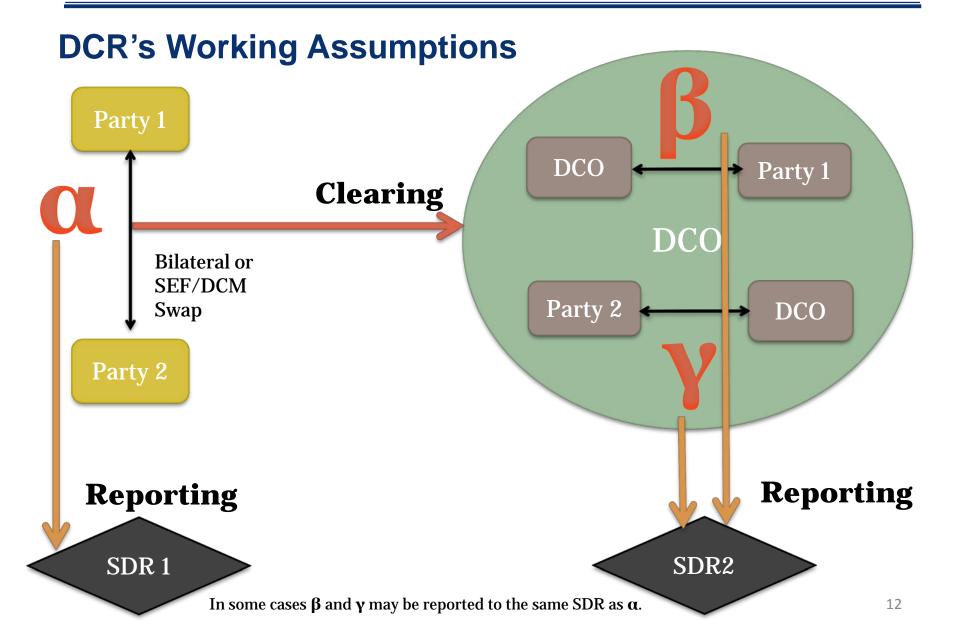
DCR's Future Regulatory Goals

- Ensure compliance with other clearing-related rules (e.g., straight-through processing)

- Review compliance with uncleared margin requirements (when finalized and effective)

- Risk-based analysis of clearing members' and customers' positions across the uncleared and cleared swap markets

Priority 1 - Clearing Requirement

- All swaps subject to the clearing requirement must be submitted to a registered DCO for clearing unless an exception, exemption, or other relief from required clearing is properly elected

- Reporting of cleared swaps is complicated by the so-called alpha swap being reported to one SDR and the beta and gamma swaps reported to another SDR. (see next slide)

- Alpha swaps remain open in SDR data, appear to be bilateral, but subject to the clearing requirement. Data in the SDR must be current and accurate (17 CFR 45.4, 49.11)

DCR's Working Assumptions

Party 1

α

Clearing

Bilateral or SEF/DCM Swap

Party 2

β

DCO ↔ Party 1

DCO

Party 2 ↔ DCO

γ

Reporting

Reporting

SDR 1

SDR2

In some cases **β** and **γ** may be reported to the same SDR as **α**.

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Clearing Requirement Issues

- The Prior USI (the USI of the alpha swap) may not be associated with the beta and gamma swap

- The alpha swap may not be terminated

- Result: Swaps that appear to be subject to the clearing requirement are appearing in the SDR as bilateral uncleared "open swaps" when in fact they have been accepted for clearing by a DCO

Priority 1 – Clearing Requirement

- Reviewing data across and within SDRs to attempt to match alpha swaps with beta and gamma swaps

- When alpha swaps remain open and appear to be subject to the clearing requirement, DCR has reached out to the SDRs, DCOs, and reporting counterparties (SDs) in order to analyze what has happened with those swaps

- Entities have responded with a number of reasons why swaps remain open (actually cleared, canceled, errors, etc)

- Entities have highlighted issues with regard to how Part 45 addresses cleared swaps and lack of clarity around responsibilities, especially with regard to the termination of the alpha swaps

Priority 1 – Clearing Requirement

- DCR believes this effort is improving data quality, but is not a practical solution

- Resource and time constraints – reviewing limited data samples and "matching" the alphas to betas and gammas

- DCR has attempted to automate process using a SAS program developed by ODT

- DCR is actively working with ODT to draft requirements for SDRs to run a weekly report themselves, so the SDRs would provide the Commission with all bilateral alpha swaps that remain open in their SDR that appear to be subject to the clearing requirement

Priority 2 – Exceptions and Exemptions

- All swaps subject to the clearing requirement must be submitted to a registered DCO for clearing unless an exception, exemption, or other relief from required clearing is properly elected <u>and reported</u>
  - End-User Exception (CEA Section 2(h)(7) & 17 CFR 50.50)
  - Inter-Affiliate Exemption (17 CFR 50.52)
  - Cooperative Exemption (17 CFR 50.51)
  - Treasury Affiliate No-Action Relief (Staff NAL 13-22)
- SDRs are required to monitor, screen, and analyze end-user exception claims by individual and affiliated entities. (17 CFR 49.14)
- DCR is working with the SDRs in developing reports

Priority 3 – Aggregate Swap Data

- Pursuant to CEA Section 2(h)(2), the Commission reviews DCO clearing determination submissions (17 CFR 39.5(b)) and the swap market as a whole when proposing new clearing requirements.

- In reviewing DCO 39.5(b) submissions, DCR has looked to Part 43, Part 45, and other data in order to review size and scope of a given product's market.

- By working with the Office of the Chief Economist, SDRs, and DCOs, DCR has been able to get a general sense of a product's notional and number of transactions from SDR data.

- Working to compare results with other publically available information (e.g., BIS data), which was used in the previous clearing requirement determination.

Path Forward

- DCR will continue to participate in all data-related cross-divisional efforts, including Commission-wide prioritization of data-related matters.

- DCR will continue to build working relationships with SDRs, SEFs/DCMs, DCOs, and reporting counterparties to resolve issues associated with current priorities.

DMO Swap Data Status

- Harmonization

- Validation and Reporting Errors

- Data Reporting Interruptions

- Transaction and Position Database

- Exotics

DMO Surveillance & System Safeguards

- Accessibility

- Automated Reports

- Compliance with Commission Rules

- Internal Analysis and Coordination

- Data Quality

- Requirements per Commission Regulation 49.24

DMO Additional Data Interests

- Ownership and Control Reports

- Messaging Data

- Visibility into Other Discrete Data Sets

DSIO Technology Needs

- Compliance

- CPO/CTAs

- Examinations

DSIO Compliance

- Current use: SD registration process requires the review of a large volume of SD policies and procedures

- Systems employed to review SD submissions
  - Concordance – electronic discovery management software
  - CaseMap – facts and issues management software

- Soon need to ensure that SDs demonstrate compliance with the requirements of the CEA and CFTC regulations, including for these purposes:
  - Ensure that a market participant does not act as a SD/MSP unless that entity is registered
  - Ensure that a SD/MSP maintains full, complete, and systematic records, together with pertinent data and memoranda of its swaps activities in compliance with the CEA, CFTC Regulations, and the entities written policies and procedures
  - Ensure that SD/MSP swap transactions and pricing data is available to the public in real-time
  - Eventually, to confirm that a SD/MSP is complying with capital and margin requirements

- Develop methods for integrating SDR data into the SD compliance review program and working with our colleagues in ODT, DMO, and DCR to ensure that swap data provided by the SD to SDRs will meet the needs of DSIO

DSIO CPO/CTAs

- Review of CPOs/CTAs
  - Ensure appropriate disclosure provided to the CFTC and to prospective clients
    - » Access disclosure documents via NFA's FACTS2000 database

- Forms CPO-PQR and CTA-PR, systemic risk data for CPOs/CTAs, filed with NFA, who provides it to the CFTC in raw form
  - Working with ODT to develop a database to review CPO/CTA data

DSIO Examinations: Systems Employed

- RSR - database for maintaining firm information
    - Financial reports
    - Risk reports
    - Notices
    - Staff notes
    - Firm contact information
    - WinJammer feeds RSR and provides a majority of the reports/notice data

- TeamMate - auditing software to facilitate reviews of firms
    - Standardized audit programs
    - Required documentation
    - Efficient supervisory review process

DSIO Examinations: Technology Strategy

- RSR is the "one stop shopping" source for all information on a firm
  - Facilitates the ability to quickly understand a firm's financial and regulatory history
  - Enables CFTC-wide to access latest information on a firm
- Given a lack of Staff, need to enhance efficiency of Staff by maximizing technology usage
  - Software – RSR should perform initial analysis of firm filings
    - » Identify regulatory violations
    - » Identify potential financial red-flags
    - » Identify negative trends
    - » Provide a financial and regulatory dashboard to monitor firms
    - » Facilitate development of CFTC firm Watch List
  - Hardware – Laptops and remote systems access must support Staff efforts
    - » Laptops are used extensively on site during examinations and crisis situations
    - » Access to CFTC, NFA and other regulatory systems is essential to allow staff up to the minute assessment of a situation
- Eliminate paper filings
  - Facilitates email notifications to Staff of a filing or lack of an expected filing
  - Electronic database to enable faster research and investigations
  - More effective for business continuity during major operational disruption

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DSIO Examinations: Data Successes

- Upgrading of TeamMate software to current version from a previously unsupported version

- Developed financial analytics of financial data received from FCMs
  - 12/24 month trend analysis of critical financial data
  - Notification to staff if significant or unusual variation in data is identified

- Customer Protection Regulations implemented technology efficiencies
  - All reports must now be filed electronically
  - All notices must now be filed electronically
  - All data imported directly into RSR database for analysis

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DSIO Examinations: Issues/Challenges

- Current Commission laptops are at end of life and a technology refresh is planned for this fiscal year

- Remote systems access has been limited in the past
  - CFTC has awarded a multicarrier wireless contract that addresses past connectivity difficulties which caused inefficiency and loss of productivity in times of crisis

- Need enhanced analytical capabilities
  - Currently focused on individual firms and not potential industry trends
  - Cannot identify where one firm stands within its peer group

- Changes to RSR are time consuming
  - Adding a new line item to a financial report takes months
  - Reliant on WinJammer to populate RSR

- TeamMate software needs re-evaluation
  - May not be utilizing the most up-to-date modules, e.g., risk assessment

- Swap Dealer data must be integrated into RSR
  - Financial data, Notices, reports all need to be incorporated into RSR

DSIO Examinations: Path Forward

- RSR – continue to work with ODT to assess effectiveness of the database tool
  - Is there a more efficient DB management tool?
  - Can changes be made more efficiently by users?

- Develop an industry wide dashboard
  - Evaluate industry trends in financial and regulatory data
  - Spot potential red flags through trend analysis on an industry basis
  - Evaluate financial ratios and data points globally

- Continue to evaluate TeamMate software to ensure its efficient implementation

- Integrate Swap Dealer data into RSR

- Update hardware and remote access capabilities