CFTC Technology Advisory Committee
February 23, 2016

Swap Data Standardization & Harmonization Panel

Draft Technical Specification Highlight as it Relates to <u>Price</u>

The Draft Technical Specification proposes to normalize the reporting of price information through 4 fields

Are alternative terms used (across asset classes, types of contracts) to represent the value exchange between parties?

Do we need additional data elements?

Data Element	Description	Allowable Values	Format/Standard
Par Spread	The spread used to quote CDS indices.	Number of Basis Points	Format: 5 digit decimal precision Example: 1 basis point will be represented as 0.00010
Price	The price per swap excluding, where applicable, commission and accrued interest.	Numeric value of zero or greater	5 digit decimal precision
Price Type	The type of pricing that is reported in the "Price" data element.	Price Spread Percentage Upfront Points	Varchar
Price Currency	An indication of the currency of the price if the price type is a price.	Valid ISO 4217 currency code	Format: 3-character alphabetical Standard: ISO 4217 currency code

- Should other allowable values be added?
- Should we have distinct allowable values per asset class?

Where a swap uses "post pricing" (e.g., the pricing is determined by an average price over time, volumetric weighted average price, closing price, opening price), how should the Price data element be expressed before the numerical price value is determined for each type of post-priced swap?

Current State of Affairs

➢ The CFTC Part 43 rule published in January 2012 introduces the concepts of Price Notation and Additional Price notation to report the price of swap products

- **Price Notation**: The price, yield, coupon, etc. depending on the type of swap, which is calculated at affirmation. The pricing characteristic may not include any premiums associated with margin, collateral, independent amounts, reconcilable post-execution events, options on a swap, or other non-economic characteristic. The format in which the pricing characteristic is real-time reported to the public shall be the format commonly sought by market participants for each particular market or contract.

- **Additional Price Notation**: The additional price notation shall include any premiums associated with reconcilable post-execution events, the presence of collateral, front-end payments, back-end payments, or other non-economic characteristics (e.g. counterparty credit risk) not illustrated in the reporting field for pricing characteristic. The additional price notation shall not include options are they are reported elsewhere.

➢ In order to provide an orderly approach to compliance, ISDA worked with market participants to develop a standardized approach to map price information for non-option products into those respective fields.

- This standardized approach was shared with the Commission staff. It takes the form of a multi-tabular spreadsheet which is organized by asset class and is available on the ISDA website http://www2.isda.org/search?headerSearch=1&keyword=price+notation

Current State of Affairs (cont'd)

➤ Snippet of the guidance provided in the case of credit derivatives:

#	Asset Class	Base Product	Sub-Product	Transaction Type	Price Notation Price Type 1	Price Notation Price 1 (Value)	Additional Price Notation - Price Type	Additional Price Notation - Price
1	Credit	Single Name	ABS	CDS on CDO				
2	Credit	Single Name	Corporate	AsiaCorporate				
3	Credit	Single Name	Corporate	Australia Corporate				
4	Credit	Single Name	Corporate	Emerging European Corporate				
5	Credit	Single Name	Corporate	Emerging European Corporate LPN				
6	Credit	Single Name	Corporate	European Corporate				
7	Credit	Single Name	Corporate	Japan Corporate				
8	Credit	Single Name	Corporate	Latin America Corporate				
9	Credit	Single Name	Corporate	Latin America Corporate Bond				
10	Credit	Single Name	Corporate	Latin America Corporate Bond Or Loan				
11	Credit	Single Name	Corporate	New Zealand Corporate				
12	Credit	Single Name	Corporate	North American Corporate				
13	Credit	Single Name	Corporate	Singapore Corporate	Upfront Points or the spread in Basis Points		Addition Price is not usually used for these taxonomy types	
14	Credit	Single Name	Corporate	Standard Asia Corporate				
15	Credit	Single Name	Corporate	Standard Australia Corporate				
16	Credit	Single Name	Corporate	Standard Emerging European Corporate				
17	Credit	Single Name	Corporate	Standard Emerging European Corporate LPN				
18	Credit	Single Name	Corporate	Standard Japan Corporate				
19	Credit	Single Name	Corporate	Standard Latin America Corporate Bond				
20	Credit	Single Name	Corporate	Standard Latin America Corporate Bond Or Loan				
21	Credit	Single Name	Corporate	Standard New Zealand Corporate				
22	Credit	Single Name	Corporate	Standard North American Corporate				
23	Credit	Single Name	Corporate	Standard Singapore Corporate				
24	Credit	Single Name	Corporate	Standard Subordinated European Insurance Corporate				
25	Credit	Single Name	Corporate	Standard Sukuk Corporate				
26	Credit	Single Name	Corporate	Subordinated European Insurance Corporate				
27	Credit	Single Name	Corporate	Sukuk Corporate				
28	Credit	Single Name	Corporate	Standard European Corporate				
29	Credit	Single Name	Recovery CDS	Fixed Recovery Swaps	Price is reported as the recovery price that the name is trading at quoted as a percentage of notional		Additional Price is not usually used fot these taxonomy types	
30	Credit	Single Name	Recovery CDS	Recovery Locks				

Price Quoting Credit examples (from CSC):

NA IG CDX index : Quoted/Traded as Spread (for e.g. IG18 5yr is quoted as 102 bps),

there is only one coupon of 100 bps : Should be reported as "IG18 index (100 coupon) traded at 102 bps"

GTR submission: Price Notation Price Type: "BasisPoints", Price Notation Price Value: 102

Current State of Affairs (cont'd)

➢ DTCC sample analysis of public price reported data over a period of 3 months (Nov 2015-Jan 2016) shows that the adherence to the guidance is imperfect, and uneven across credit products:

Top Disseminated Credit Products	Basis Points	Percentage	Price	UpfrontPoints	Amount	Total	*	ISDA Recommendation	Rate of Adherence
CMBX	17%	70%	12%	0%	1%	100%	*	Price	12%
iTraxx Europe	90%	5%	1%	1%	2%	100%	*	Basis Points	90%
CDX.HY	18%	8%	71%	3%	0%	100%	*	Price	71%
CDX.IG	85%	11%	0%	4%	0%	100%	*	Basis Points	85%
CDX.EM	48%	4%	46%	0%	2%	100%	*	Upfront / Basis Points	48%
IOS	0%	74%	26%	0%	0%	100%	*	Price	26%
iTraxx Asia	90%	4%	5%	0%	1%	100%	*	Basis Points	90%

Proposed Recommendations

➢ This analysis shows that **the issue at stake is validation, not standardization**

- The CFTC has already provided a methodology for normalizing price information. As a follow-up from the rule, market participants have developed and published a detailed guidance in order to provide a common implementation of this provision.

- What is needed at this point is a comprehensive validation framework to provide proper adherence to this existing standard.

➢ For swaps that are priced post-execution, reporting should be postponed until such time that the price is known

- An execution without price misses critical information for public purposes, while risks exposing the investment strategy of the market participants that rely on such products.