



Responses to the CFTC's Questions on the SDR Requirements

Reval Background

Reval® provides financial and accounting professionals with an award-winning Web-based platform that supports derivative risk management and hedge accounting. This Software-as-a-Service addresses derivative users' need to comply with international regulations, such as ASC 815 (FAS 133), ASC 820 (FAS 157), Sarbanes-Oxley, IAS 39 and IFRS 7. The world's leading corporations, financial institutions, and accounting and advisory firms rely on Reval to provide independent valuations and risk analysis of derivative transactions and to assist with the hedge accounting of foreign exchange, interest rates, energy, credit, commodities, and other asset classes. Reval uses its expert teams comprising financial engineers, accounting professionals, and technologists to deliver its critically acclaimed services and products. Founded in 1999, Reval has headquarters in New York and regional centers based in Bala Cynwyd, Chicago, San Francisco, Toronto, London, Frankfurt, Sydney, Hong Kong, and Gurgaon.

Reval is uniquely positioned to be a Swap Data Repository (SDR) as it has both the data warehouse capabilities across asset classes defined as Swaps under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act") and can provide independent valuation and risk analysis and reporting needed to help regulators monitor and measure the derivative activities. It is also a fully-hosted application that is delivered over the Internet under the Software-as-a-Service model, allowing for secure remote access by regulators and easy connectivity to Swap Dealers data via .csv file or xml.

Key Assumptions

The responses below do not necessarily reflect the final path that Reval would take should it register and be selected as an SDR. The proper legal entity, infrastructure, systems, personnel and other investments can only be determined once the rules are announced. The responses will reflect the following key assumptions:

- There will be more than one SDR.
- The SDR rules will allow for compliance under the Dodd-Frank bill.
- The goal of the SDR rules will not be so onerous that the number of SDR registrants becomes limited.
- The goal is to try to minimize the financial burden to the market participants.
- The SDR can be located anywhere in the U.S.
- The SDR will have to be more than a data warehouse and have the ability to analyze the data.

Responses to Questions

1. What involvement, if any, would market participants have in the proposed SDR's governance/oversight/advisory committees? What responsibilities/powers, if any, would these committees have?

Reval would set up the following committees and could invite market participants to these committees as described below:

- Regulatory Compliance Committee: Its purpose would be to monitor that the CCO and SDR staff are in proper compliance with the Act and that internal controls and processes are set in place.
 - General Counsel from a Swap Dealer, MSP, Swap Execution Facility (SEF) or Clearing Firm could participate to help governance issues concerning confidentiality of Swap data.
 - Swap Dealer member could participate to work with the SDR on methods to improve confirmation of trades, end-user clearing exemption requirements and other Swap Dealer requirements under the Act that may be reported to the SDR.
 - External Accounting firm to audit SAS 70 Type (II) Compliance.
- Derivative Markets Committee: Its purpose would be to report and advise on changes to the derivative markets that may impact the SDR.
 - Swap Dealer to advise the SDR on new instrument types being proposed, changes to pricing methodologies, market data inputs, developments in bi-lateral collateral, capital changes or any other aspect that may be important for the SDR to comply with the Act.
 - SEF or Clearing Firm would inform the SDR of pending new instruments that may trade on an exchange or clear that may impact the SDR.
- SDR Technology & Standards Committee: Its purpose would be to monitor the SDR's security, back-up, DR capabilities and adherence to the Act as well as to advise on new technologies, derivative data standards, security protocols, etc., which may further enhance the SDR's capabilities.
 - CTOs from Swap Dealer, MSP, SEF or Clearing Firms and other SDRs who can advise on advancements in technology that may assist the SDR.
 - Other technology vendors that serve market participants who can advise the SDR.

The committees would meet quarterly with senior management and record minutes that would be made available to the SDR Board and to the CFTC. The Regulatory Compliance Committee would report into the SDR Board on a quarterly basis, independent from the CEO or CCO of the SDR.

2. What types of conflicts of interest may potentially arise in the operation of an SDR?

An SDR with any ownership or revenue sharing arrangement directly with a Swap Dealer or indirectly, say through a Clearing Firm held by a Swap Dealer, would be the obvious conflict of interest. Preferential pricing of services could occur, although if pricing is made transparent to the public or mandated by the CFTC, this could be managed. The more difficult conflict to manage would be

Responses to Questions

preferential treatment in services provided by the SDR. This could range from responsiveness to addressing any customer support issues to prioritization on new instruments that the Swap Dealer may have to offer the market where the SDR did not currently have the capabilities to warehouse the transaction.

If there are multiple SDRs allowed, then the SDR without a conflict may be at a disadvantage when trying to promote its business, not just to the Swap Dealer involved in a conflict, but to any Swap Dealer. For example, if the top ten Swap Dealers invest in an SDR, then that SDR would be able to better market its service to the remaining Swap Dealers, which would result in unfair competition.

Any allowable commercial businesses resulting from the information received by the SDR could create a conflict. For example, if only one SDR is created for an asset class and that SDR is held by a market participant that could gain by having an edge on when the information is received, even if by a split second, it could have a trading edge.

Given the highly confidential nature of the client information, and despite measures to protect that client information, there would always be an underlying conflict to ensure that the position information or client activity does not get into the hands of investors or business partners of the SDR who could benefit from that information.

3. Would an ownership cap mitigate the potential conflicts of interests already identified? If so, what should the cap be?

Certainly the larger the ownership, the more incentive there could be for the conflict to become real. Perhaps a more important aspect than a cap level would be an investor with a Board seat or Observer rights and/or a seat on any Board Committees.

One could also say a consortium of owners poses a conflict as together they could have a greater influence on the SDR.

4. Would requiring that a certain percentage of an SDR board be composed of independent or public directors mitigate the potential conflicts of interest already identified? If so, what should the percentage be and why?

In theory, independent or otherwise, a Board Director would not want the SDR to violate the Act; however, as it would be expected that most SDRs would not be publicly traded companies, but private, the independence component probably would not carry the same weight. For example, there is probably more cachet and compensation to being an independent Board Director of a public firm than a private firm, and along with that goes greater responsibilities and accountability. Most of the potential conflict areas may not reach the Board level unless discovered through review by the audit or one of the committee reviews.

Responses to Questions

Similar to the response to the ownership question, one could also be concerned by having multiple Swap Dealers on one SDR board, not just having one Swap Dealer with larger control of the Board and presumably the equity of the SDR.

One other consideration to the corporate structure question is that requiring the SDR to be a standalone entity could increase the conflict as investors would most likely be banks that understand this niche space rather than a larger pool of investors coming from the venture equity market that would be more likely to invest in a growth business with diversification.

5. Please provide an overview of your confidentiality policies that would apply to an SDR.

Reval maintains financial data for over 400 clients and takes very seriously its responsibilities to hold the information securely and confidentially. As a result, the Reval SDR, or any other SDR, should apply the following policies:

- All employees and consultants undergo a thorough background check including criminal and credit.
- Employees and consultants must sign a confidential and proprietary information agreement with the company which requires them to hold information in strictest confidence and survives employment with the company.
- Stringent application security with User ID and password for authentication. IP validation is available to add an additional form of authentication. Transmission of data, including user credentials, is done using 128bit encryption. To further safeguard user information, passwords are stored in encrypted form in the database.
- Database & Network Security would be of the highest level with multiple and redundant firewalls and DMZs in place.
- A rigorous change control process would be applied procedure governing network, security and application changes in the SDR's production environment. All changes are first staged and tested in a pre-production environment before being promoted to production. Senior management approval is required for all production changes to be applied.
- An escalation and remediation plan is in place for security breaches. Third party firms can conduct security vulnerability assessments on the SDR's production environment.
- SDRs should ensure their primary and back-up data centers are ultra-secure with access to the facility or cage restricted to authorized SDR personnel with proper credentials. Full environmental and power controls and redundancy are in place.
- The security and integrity of each production datacenter is achieved and maintained by robust facility construction, comprehensive access controls, video surveillance monitoring, 24-hour personnel and comprehensive policies and procedures which are SAS 70 Type II audited on an annual basis. Biometric hand scanners are installed to control access into the most critical areas (Network Control Center, telecommunications node room and customer Vaults).