UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

PUBLIC ROUNDTABLE TO DISCUSS
SWAP DATA RECORDKEEPING AND REPORTING REQUIREMENTS

Washington, D.C.
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AGENDA

Welcome Remarks and Overview of Current landscape for UCI

For CFTC:
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Chairman
DAVID TAYLOR
Special Counsel, Division of Market Oversight
IRINA LEONOVA
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ANDREW HINZ
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Panel 1: Technical Considerations Concerning Unique Counterparty Identifiers (UCIs)

KEN TRAU
GS1
MARK BOLGIANO
XBRL
KEN HAASE
NFA
PAUL JANSSENS
SWIFT
FRANCIS GROSS
Central European Bank
JOHN MULHOLLAND
EDM/Fannie Mae
AGENDA

Panel 2: Operational Considerations Concerning Unique Counterparty Identifiers

RONALD JORDAN
Avox/DTCC

SCOTT PREISS
CUSIP

PETER MARNEY
Thomson Reuters

GEORGET HARRINGTON
Bloomberg

BRAD BARTON
swift

ED CHIDSEY
Markit

OLA PERSSON
FINRA

Panel 3: Implementation Considerations Concerning Unique Identifiers

PAUL PUSKULDJIAN
Citi

ARTHUR MAGNUS
JP Morgan

MELISSA GOLDMAN
Goldman Sachs

TODD SULLIVAN
Morgan Stanley

STUART McCLYMONT
Deutsche Bank
AGENDA

LINDSAY YEE
NYW Mellon

ALLAN GRODY
Financial InterGroup Holdings

BRIAN HOLT
Bank of America

RAYMOND TUBRIDY
State Street

Panel 4: Unique Product Identification (UPI)

KULBIR ARORA
Goldman Sachs

BRUCE TUPPER
ICE

SUNIL CUTINHO
CME

ADAM LITKE
Bloomberg

KEN HAASE
NFA

ELEANOR DREW
Citi

ED CHIDSEY
Markit

OLA PERSSON
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Panel 5: Unique Swap Identification (USI)

SUNIL CUTINHO
CME

JONATHAN WILLIAMS
Tradeweb

BRUCE TUPPER
ICE

RAF PRITCHARD
TriOptima

ARTHUR MAGNUS
JP Morgan

PETER AXILRODE
DTCC

Panel 6: Master Agreement Library and Portfolio
Data Warehouse:

MICHAEL WILL
docGenix

ROBERT PICKEL
ISDA

ARTHUR MAGNUS
JP Morgan

PAT TROZZO
Reval

RAF PRITCHARD
TriOptima
AGENDA

PETER AXILROD
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MELISSA GOLDMAN
Goldman Sachs

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CHAIRMAN GENSLER: I'm doing a little stand-in here for Rick Shilts, who is going to do the intro. Rick is the head of our Division of Market Oversight. Let me first just greet everybody. Thank you and the CFTC staff for arranging this roundtable on these critical issues. Rick would have been here, but given the ice and shoveling and everything, yesterday he broke his wrist. So, he's fine. He's home. He's alright. But I'm the stand-in.

More than that -- thank you all for doing this. I think we have six panels today on very important issues to a proposed rule that we've put forward. I think some of our colleagues and friends from the SEC are tying in by phone and listening. I know this will be very helpful for the SEC. We are hopeful, I think, that some of the folks from the OFR over at Treasury, which has been so helpful with this on data collection, too, is also tying in either here directly or listening.
But the effort really is to move forward with the proposal. I think a comment period closes February 7th, so everything that goes on here will be put in a transcript and be part of the comment period as well -- and comment file.

But more than that, it's about unique identifiers for three areas, as you know. For counterparties. For products. And what we call "swaps" or what I call "transactions." But I know they are swap IDs. And somehow, as the whole financial industry would be relying on these unique IDs for counterparties, products, and swaps to get the best advice on implementation -- on how to bring this all together.

So with that I think I've probably exhausted my role here and turn it over to David, Irina, and the team -- and thanking everybody who is going to participate today.

MR. TAYLOR: Thank you very much, Gary.

I need to ask the court reporter. Are you set with names?

COURT REPORTER: [Inaudible.]
MR. TAYLOR: Okay, good. Well, we will dive right in. Thank you all for being here today. It's going to be very helpful for us to be sure that we get the technical aspects of these issues that we're going to talk about today right in the final rule.

I thought I would begin by giving a brief overview of the current landscape regarding unique counterparty identifiers, and then we'll jump right in to the first panel.

Over the last decade virtually all financial sector stakeholders have come to recognize the need for universal, accurate, trusted methods of identifying legal entities that are parties to financial transactions. A unique counterparty identifier, sometimes known as a "legal entity identifier," will be a crucial regulatory tool for enabling data aggregation across counterparties, asset classes, and transactions. That will enhance regulators' ability to monitor and mitigate systemic risk, prevent market manipulation, enforce position
limits, and exercise resolution authority.

Full realization of systemic risk mitigation and transparency, which are fundamental purposes of the Dodd-Frank Act, cannot be fully achieved without mandatory use of entity identifiers in swap data reporting. And the identifiers would also have great benefits for financial entities in terms of transaction processing, internal recordkeeping, compliance, margin calculation, due diligence, and risk management.

At present no industry-wide entity identifier that is sufficiently unique, persistent, comprehensive, and open is available to serve as an industry-wide standard. In the absence of a universal entity identifier, vendors and firms and regulators have created a variety of identifiers. One of my colleagues at the Fed sometimes refers to these as "little silos of excellence." But they are separate from each other. This creates inefficiencies and expense for firms and can result in costly errors. And it
also presents obstacles to regulators' ability to see a comprehensive picture of the market. Such partial solutions are often proprietary, restricted in use and redistribution, limited in scope.

We believe that at present we have a window of opportunity to create an open entity identifier that solves these problems. As noted in the proposed rule, the Commission believes that optimum effectiveness for a legal entity identifier would come from creation of entity identifier system on an international basis through a voluntary consensus standards body. The proposed rule sets out principles that the Commission believes must govern such a system. It also calls for reporting of information concerning affiliations of entities that receive a legal entity identifier.

The purpose of our first three panels today is to explore the technical, operational, and implementation considerations that the Commission should address concerning unique
counterparty identifiers in its final data reporting rule.

And with that, let's jump into the first panel. I would remind you all, these microphones are "push to talk" so when you would like to talk, push the button -- the little red light will come on. When you are done, push again to turn it off. And if you can, don't let your BlackBerry or phone be on the table because they do feedback.

We do have, in a way, an extra panelist with us by phone this morning who is going to speak to us now as we begin. Francis Gross from the European Central Bank.

MR. GROSS: Hello. Good morning. I'm very pleased to be with you and I look forward to hearing the debate and contributing where I can.

MR. TAYLOR: We appreciate your being here.

MR. GROSS: Thank you.

MS. LEONOVA: Okay. I guess we are ready for our first panel. Before we start I want to thank CRTC staff for making it happen. Anna
Schubert and J.P. Rothenberg. Our administrative staff Margie Yates, Veda Allen and Joshua Griffin and Mike Johnson.

The first panel has more of a technical aspect for unique entity identifiers, or commonly known as "legal entity identifiers." I believe most of you have a list of questions that we would like to discuss, but it is mostly for guidance rather than "let's make it happen."

So, I guess let's start at the first one: Are there any existing identifiers viable for use as UCIs or LEIs? What is the opinion, and what are the solutions?

MR. TRAUB: I would be happy to speak first to that one. I represent GS1 US, which is part of the GS1 organization. GS1 is a global voluntary standards consensus body. We've been in the business of developing standards for supply chains across a number of different sectors for nearly 40 years. Those of you who have seen barcodes on consumer products have seen the most visible aspect of what the GS1 system is, but
that's just one type of identifier in a whole system of identifiers that we have.

And in fact, one of the existing, widely adopted standards within the GS1 system is an identifier for legal entities. It's an identifier that we call the "GLN" and it is a 13-digit identifier, which can be used to identify a legal entity, whether that be the parent of a corporation or a subsidiary or any other legal entity that requires identification.

The GS1 system is fully international. It's supported through a network of 108 member organizations, which is GS1's term for what are effectively operating arms of the GS1 standards body in 108 different countries around the globe. There's also a global office in Brussels that supports smaller countries that don't have a local office of their own.

The GS1 system is designed to allow identifiers to be globally unique and persistent throughout the world, and that's done through allocation of the numbering space to the different
member organizations so that they can be
distributed locally. And we can talk more about
the technical details, but I'll just stop there
and say that we believe that we believe that that
identifier would be eminently suited as a UCI, and
we believe it meets all of the requirements that
have been set forth.

MR. BOLGIANO: I'll be glad to go next.

My name is Mark Bolgiano. I'm here actually with
three hats on -- as a member of XBRL US Board of
Directors, as a member of the ANCI-X9 Board of
Directors, which is the U.S. jurisdiction of ISO
for financial standards -- particularly ISO 2022,
and as the chair of ISO Working Group 5, which is
looking at semantic technologies to get
harmonization across standards.

I should also add that up until December
I served as the Founding CEO of XBRL US, which
came out of leadership from the SEC and FDIC and
the use of standards for regulatory reporting, and
is now being led in industry by DTCC, SWIFT, the
accounting profession, and the technology
profession.

We've obviously -- now that the SEC has implemented data standards for the origination and the issuance of reporting -- we've encountered the identifier many times as a limiting factor in the effectiveness of effective reporting and intake of data into various systems. And we have really addressed this by very aggressively pursuing the ISO standards that apply, because they met the criteria that we found were important. One is maturity of technology and the maturity of its use. The other is the system of governance -- a stable and strong global system of governance. The other was the economic model involved, particularly where it applies to the intellectual property in any identifier. And really the aggregate effect of all these, which is access, really. Access by regulators, access by the public, access by the partners who rely on an identifier for confidence in the information.

So, therefore, we are strongly recommending that the BIC standard, not only as it
exists but as it will evolve under the governance that I've referred to, represents the best legal entity identify option.

MR. JANSSENS: I would just follow on to what Mark was just saying. So, we also believe from a SWIFT perspective we are the registration authority for BIC. BIC is in use in the financial industry for more than 30 years -- is already identifying entities in transactions and counterparties in transactions for a long time. So yes, we believe that an existing identifier can fulfill the role of legal entity identification.

We are bringing changes to the ISO standard. We are in the process of making a revision of the standard so that it even better fits the needs and the requirements as they have been described in the requirement from the CFTC. So that there will be a BIC only for legal entity identification, so that there will be a distinction between the BICs that have been used so far and the BICs that will be used for legal entity identification. No confusion between the
two. Therefore we think that can serve the purpose.

MR. HAASE: I'm Ken Haase. I'm with the NFA. Those at the Commission I'm sure you know what NFA is and how long we've been working with an NFA ID. Over 25 years we have been assigning these through out registration system. And to date we have handed out approximately 450,000. Currently there are about 55,000 in use that are current at the moment. And we have had this system in place. We feel that it is a fairly strong system. We have given the firms the ability to go in and electronically assign these for the individuals that work for these firms. And I guess the one thing I would add on there, from our point of view, is also the ability to go in and ensure that it is unique to the individual and the underlying functions that you need in that system to go through and make sure that you are not duplicating these IDs, either for firms or for individuals.

MS. LEONova: Going forward, you know
what a great job you do individually. Now let's try to get together and define what you can see that to be in theory -- desired and optimal structure of the identifier -- without referencing your particular system.

MR. BOGLIANO: I'll be glad to start. I think that my input would be on the question of centralization -- on the assignment and validation that I think that a lot of the questions we've heard asked on this subject presume a certain level of centralization. And speaking as a CIO for 25 years, and someone who is now just returned back to that type of role, I can tell you that today's technology environment probably will not tolerate what has historically been the optimum choice, which is absolute centralization of validation, storage, registration.

If you look at the models that are working today, whether it's for IP addresses or for web URLs, while there certainly has to be a central authority -- there has to be an authoritative source -- I would say that
"federation" is a concept that should be considered in any solution. Everyone at the table here has provided a certain level of trust and confidence through the numbers that are being assigned and validated, ensuring that they are unique going across supply chains.

My input would be that, while we do need a central authoritative source, that the federation of the assignment of numbers -- and again with the objective of access being central to the thinking -- is very important. The other concept, and then I'll conclude, is that we not try to give the numbers any payload of information. The numbers should be abstract and unique. I think most models today that try to include location codes, branch numbers -- I don't think in the long term those are as sustainable. And this is what I'm referring to in the evolution of the BIC number, not to mention the specific. But I think all of the options being examined, that's a general trend. So that's my input.

MR. TRAUB: I'd like to amplify some of
the comments that Mark made. I think we're in complete agreement as to the principles there, and I'll just support that through some experience that our organization has had in assigning unique identification in an international environment in particular.

I think decentralization is absolutely essential for success in an international environment simply because -- particularly when we're talking about legal entity identification in the financial industry -- for many nations this is an issue of national sovereignty. And there are different laws and regulations that apply in each jurisdiction, and it's only through a federated model that one can accommodate all those, while still creating a framework in which there is standardization worldwide and therefore the ability to have that single unique identification.

Typically the way this is achieved is by having a global numbering space that is then divided in some way across regulatory regimes, to preserve uniqueness worldwide, and then within...
each of those divisions, allowing the local regulators or authorities or issuing agencies to work within that space and then apply any local considerations that apply there.

We also believe there is merit in taking the decentralization concept one step further and allowing individual counterparties to ultimately be the issuers of individual identifiers by allocating a range of numbers to companies that need it. Then they can issue their own identifiers and then register them in a separate operation.

And the decoupling between the issuance of the number itself and the registration of associated reference data we think is also a very important technical ingredient because it helps facilitate different types of expertise. One organization responsible for maintaining the numbering space and being very neutral -- letting other organizations that have deep expertise in the data and in financial services handle the registration of the accompanying reference data.
And that's a feature of the GS1 system as well. I think I would also just amplify the points that Mark made about what we call the "non-significance of the number," Meaning no information or intelligence embedded in the number. I think we can point to many examples from experience that show that any attempt to embed intelligence in the number usually runs into pitfalls further down the road. And so we would also support that as a technical characteristic that's important. Thank you.

MR. TAYLOR: Let me ask a question to follow up. If you have a system that decentralizes the issuance of the identifiers themselves, can you elaborate a bit on how you would ensure that they all stay unique?

MR. TRAUB: Yes, it's actually a pretty simple principle. In the case of the GS1 system, the way that works is that when the numbering space is divided among the various national and regional authorities, we use the first few digits of the number to ensure uniqueness. So, numbers
issues in the United States begin with a "0". Numbers in the U.K. begin with a "5", and so forth. Very similar to what you see with International Dialing Codes for telephones.

That principle extends downward as you decentralize through to individual companies issuing identifiers. The key there is not to try and associate any intelligence with that. You use that as a means to divide up the issuance of the numbers, but what you do not do is say that once a number is issued you can then parse out those components and try to learn who owns it. That has to be done through associated reference data.

What all that dividing up the number is, is a means for decentralizing the issuance of it. And in the GS1 system, that's done actually with a variable-length system, so the division lines between the different parts are somewhat flexible, which allows capacity to be tuned as you distribute the codes through the world.

MR. HAASE: I guess I would just echo both what Mark and Ken said in regards to keeping
the intelligence out of the number. Just about any time you've gone and built a system and you thought this is exactly -- we've figured out everything that could possibly go in that number, about a week after it goes live you find that one item that is not included or something else comes up. So yes, definitely keep that intelligence out of it.

MR. JANSSENS: Yes. Same comment. Getting out all the intelligence from a code is essential, because what counts when a code has been assigned, that the code does not change because something is happening. And that's really important and that's what should be considered is that not only there is no intelligence in there, but also that the code is perpetual and persists whatever happens to the entity which has been identified. When something is happening to the identity, that must be processed through the attributes, the reference data which is attached to the number, not in the number itself.

MS. LEONOVA: Can we discuss what
reference data you consider to be important and what characteristics it has to have?

MR. JANSSENS: Well the characteristics are the attributes that we need to consider, and in terms of attributes there are a certain number of unique attributes that will enable identification of the entity itself, which is its legal name, which is its registered address in the country of incorporation. Those is the basic information that is needed.

Next to that you need to have data base management attributes, which enable to sort out when the code has been created, when the code has been validated, when it has been updated, when it eventually expires -- because a code can expire if the entity disappears. But those elements will help make sure that by looking across all the entities you can identify them uniquely and that there is no duplication of entities so that the code is unique.

MR. BOLGIANO: What Paul is describing is a discipline that's been awhile for a while,
called "master data management." This is marked by identity, provenance of the data -- as Paul has pointed out about the chain of custody, and then the security and privacy of that data that results from good management of master data and reference data.

And I think that the challenge of course comes, first, when the reference data changes, because generally the reference data is not a transaction, it's an entity. So changes to that, such as -- we're actually involved in work right now with corporate actions. Corporate actions are changes to the securities master. And also when these are referenced across large networks.

And so a huge network like SWIFT, this is why, if you'll forgive me, I think one of the big reasons why SWIFT is in the standards business, because the standards applied to that reference data is so key to the integrity of the movement of information across networks. And when I say "networks" I don't mean the cables, necessarily. I mean the network of business
actors, investors, general public -- for
transparency here in the United States, and
regulators.

MR. TRAUB: I would just add to that
that obviously we need to understand exactly what
reference data we wish to associate with
identifies. I think equally important is
attention to the process by which those
determinations are made. And you can understand
that by considering that the answer to the
question "What is an appropriate legal entity
identifier?" -- the answer to that question is one
that we hope is very stable over time. The
question of "What reference data do we need
associated with an identifier?" is an answer that
evolves over time, as business conditions change,
as new requirements emerge for understanding what
that data means.

And so therefore we believe it's very
important to have a very robust global standards
process for establishing the definitions of what
reference data is to be associated with
identifiers. In GS1 we have experience developing reference data for consumer products and other types of supply chain entities. And we have a global network that allows that data to be synchronized worldwide through a federation of different databases. And we bring end users together to develop the standards for exactly what that data is.

One of the things we've learned in that is that one has to balance core needs for reference data that are shared among all participants for virtually all applications. And for legal entity identification those are basic things such as name, location, contact information, relationship to other legal entities.

But then beyond that you have more and more specialized data that is maybe application specific. So perhaps there's reference data that applies to legal entities who are broker-dealers as opposed to different information that would apply to a different type of entity. It's important to have a very extensible and manageable
modular structure there, because in order to
actually get good reference data -- data that is
actually supplied accurately by the participants
-- one has to keep it as simple as possible, but
not too simple that it fails to meet business
requirements.

MS. LEONOVA: May I ask follow up
questions? How do you ensure extensibility of an
identifier?

MR. TRAUB: Well, for the identifier
itself -- and that's a separate question from
extensibility of the reference data -- but for
extensibility of the identifier the basic
principle we believe is to reserve a part of the
structure for future expansion. So that may mean
that there's a first digit that has an unassigned
value that can be used to indicate an extension in
the future. There are a number of techniques for
doing that that are fairly well established.

To give an example of our experience
doing that, the UPC code that you see on products
began as a 12-digit number in North America, and
then when it expanded to worldwide use, the capacity was too limiting, and so a 13th digit was added. And the way the extensibility worked was that digit was implicitly zero in North America where it didn't exist. And so zero was not allowed to be the first digit anywhere else in the world, and that way the 12-digit and 13-digit code could co-exist for a period of time. And then there was a period of controlled migration and a sunrise date at which information systems around the world were required to accept both forms. And that's actually happened twice with the product code. Our legal entity identifier has not required that extension because as of now it has pretty large capacity compared with anticipated requirements. But that's the basic principle.

MR. JANSSENS: From an extensibility point of view of the code I think you need to make sure that the code from the start is large enough to cover the whole scope, because otherwise you start to have intelligence in the code itself. So I think that the code must cater for what is
needed from the beginning. Later on you have the extensibility in the attributes. If the market evolves -- if the industry requirements are changing, then you can manage that with the attributes which are attached to the code, and you don't have to work with changes in the code itself, which from a data base point of view -- from a data base management point of view -- if you have built your data model based on a certain structure of the code itself, you have to change it because that is your root key.

So we think that the code should no longer change once it has been defined. But the attribute, you have all the flexibility that you want -- to add attributes, to remove attributes, or change them as you see fit going forward.

MR. BOLGIANO: I'm just going to add a very brief remark, which is general although relevant to this, and relate the experience of the XBRL introduction to issuers in the corporate, publicly traded world -- mutual funds -- that what you're hearing discussed here reflects a
combination of mandate and market acceptance. And 

in fact we found that one without the other has a 
very reduced chance of success.

And so I would urge the CFTC, in

considering the plans to -- while it's possible to
mandate a system once a system is determined, that
more than half the battle is in thinking about
what contributes to market acceptance -- to the
user acceptance here. And your use of the word
"stability" -- even a perceived lack of stability
will have a drastic impact on market acceptance.

MR. HAASE: Let me just touch on two

things. In whatever system the Commission ends up
going with, you have to understand and appreciate
the amount of time it will take the other systems
to accept this new number and what has to be
modified in those systems to allow everyone to
adjust to it. That's number one.

And number two, the other thing, is the
security behind it. For people to accept the
system, there are going to have to know that the

data they are putting into it is secure. They're
going to want to feel very comfortable before they start giving out all this information. What information varies on which country you are dealing with. But the security, and then once gain the time to modify other systems to accept this number.

MR. TAYLOR: Let me ask you a follow up question. Talk a bit about the time you think would be needed.

MR. HAASE: The time needed. And that's going to depend on the system you are dealing with, so I surely can't speak for anyone else sitting around this table. But the time needed depends on the number. You're going to have to have the ability to -- if you take one system and try to impose it on a second system, there's going to be a big matching process. Now it depends on how many people and entities you're dealing with -- to understand that all the Ken Haases over here and the Ken Haases over here are actually the same person, and make that match.

So the time is going to be dependent on
the size of the system and also the resources behind going through and doing that match. So it's very hard to put a specific timeframe on it.

MS. LEONOVA: But going back to this implementation plan, what characteristics do you believe a mandated code has to have in order to be accepted comparable to -- adjustable to current systems?

MR. TRAUB: I think it's critically important that the timelines and the procedures for that period of migration have to be developed with consultation from the stakeholders. And really, you have to get a lot of input from the stakeholders involved to ensure that what is actually mandated is ultimately doable, and doable in an effective manner.

Our experience in doing various sunrises of new codes and other things of that nature has borne this out time and again.

MR. JANSSENS: I would build on what has been said, and also referring to some of the other questions that you have in there -- do we use an
existing code or not? Or should we start with a
totally new code? If you start building from an
existing standard, from an existing scheme, you
get adoption faster. And the processes are in
place, so the timeline will be shorter if you
start with something that exists already.

MS. LEONOVA: How much shorter?

MR. JANSSENS: That depends on the
quantity, and probably what Ken has said as well.
Depending on how many entities you need to
identity, if you talk about 10,000 or 100,000 this
is business as usual. If you talk about millions,
that needs to be a different perspective.

So if we talk about in the 50 to
100,000, it can be done in a couple of months -- a
handful of months, I mean, 5, 6 months, whatever.
If you talk about millions, I think we need to
have some more time to make sure that the process
is robust. The time is one thing. I think the
important element is quality. Because if you
launch something, it must be bulletproof from the
start, because as Mark was saying, adoption is
important as well. If you have leaks in there, you will have resistance to usage of it, and you have the risk that it's not global, that it's not unique. And then you need to start to cleaning up what has been done.

So I think it's more important to look into making sure that starting small with good quality -- I mean, 100 percent quality -- and then build from there. So it's at the first stage and the first building block, and then contribute to that going forward.

MR. TRAUB: And I think in addition to that there has to be a lot of support on the ground from the agencies involved to support end-users in understanding the new rules, understanding how to adopt so that -- a forum for sharing experience so that it gets easier and easier as more and more companies join that adoption process.

And if the goal is to create an international standard -- an internationally-accepted identifier -- then that
support network has to be available on a global basis and available in a way that is tailored to the local market conditions and cultural conditions and language conditions that exist in each of those places around the world.

MR. BOLGIANO: At the risk of oversimplifying, I'm going to say it boils down to usability and accessibility. Five hundred million Facebook users have created a unique identity in the last three years. Five hundred million. You know, that's a reflection of a certain level of usability and access. Again, I know I'm oversimplifying here.

You can impose a mandate and it could take forever. Or you can consult with stakeholders, build on an existing standard that already has global reach, and you could find the timeline much shorter. This is a really difficult question, and actually I was looking forward to watching the operational and implementation panels squirm over this question. I'm disappointed that we got it first. [Laughter.]
MS. LEONOVA: Maybe a naïve question, but where do you see more problems? On the hardware side or software side?

MR. HAASE: Software.

MR. BOLGIANO: I'm going to point out the obvious.

MR. TRAUB: Yeah.

MR. BOLGIANO: Hardware is trivial.

This is not a hardware problem.

MR. HAASE: I agree.

MR. JANSSENS: Yeah.

MR. TRAUB: You know, the quantity of legal identifiers -- legal entity identifiers -- is miniscule compared to the quantity of trades, for example, that happen every day. So the volume of data that we're talking about here, from the financial industry's perspective, is not a stretch at all. The difficulty here is in the business processes around adoption of something new, migration of systems, all of those things. And that's really a software problem and a people problem, and not so much a hardware problem.
MR. JANSSENS: Yeah, I would concur.

MR. GROSS: If I may come in. Francis Gross from the ECB. Just a short remark. I think that observing the industry you see that they just know where to converge, in terms of standards. And once a standard is backed by international institutions and by law in several countries for mandatory use in reporting, the industry will know where to converge and then it's just about the normal update of processes and system over time. It will take time to migrate, but once it's there, they will go to it.

MR. JANSSENS: Yes, I confirm. It's not a software or hardware, it's a process. It's the analysis of the data on the one side, as I mentioned, that the quality is there, so you need to have robust processes to analyze and make sure that you don't duplicate entities or codes for entities. That's the most important on the allocation of codes. And then on the usage of the codes, it's to make sure that the processes and the systems have been adapted to in-take that code
and to transport it so that it can fill the requirements of reporting.

MR. BOLGIANO: First, I want to say hello to my friend Francis, whose speaking to us from Frankfurt, and to recognize that two years ago he was a block away from here in my office talking about the concept of a "data utility."

And I really think that's a very good description that captures a lot of these characteristics that you're trying to determine in this roundtable.

Francis, correct me if I'm wrong, but I think one of the first things that we discussed as a limiting factor to an effective data utility is identity management.

MR. GROSS: Yes.

MR. BOLGIANO: And the identity of entities. Now we're talking about a utility that's much like the electrical grid in the U.S., in that there won't be -- whether because of national boundaries or for just practical operational purposes -- it is going to be a network. It is going to be distributed.
The things that are built into networks that are resilient now, I think, are worth examining to apply -- even if they are translated from other contexts -- whether it's power or phone or telecommunications -- into this. It's the same kind of replication, validation, authentication. But also the ability to decentralize and federate as part of that decentralization.

The Internet was created to survive a devastating attack on infrastructure, and it evolved into something that's now serving a huge public good. I think there's just as much potential for the SEC and the CFTC and Treasury with OFR to create just as big of a utility that will have just as much of a profound effect on our economy.

MR. JANSSSENS: I link to that also the Europeans. Because you mentioned the U.S. regulators, but also together this is a global solution. It's globally adopted. It is to be combined and converged, because the firms which will have to comply with this, they are also in
all areas. So it needs to be one system mandated
globally by the regulators so that the firms can
adapt. And that they only have one system to
adopt.

MR. GROSS: Perhaps to that point, in
his speech on 19 October 2010 at the ECB
Statistics Conference, Jean-Claude Trichet, the
President of the ECB, called for a reference data
utility that would be operated on the basis of an
international agreement. That could be something
now in reach if we take the OFR as the first step,
and similar efforts in Europe in the legislative
sphere -- if that can come to fruition, others
will join as well. It can grow in a modular
fashion.

And then the technical structure of the
data bases, whether they will be structured as a
network or whether there will be a central
repository somewhere, that matters less, as long
as there is the assurance that the data is
strictly standardized -- not just harmonized --
but strictly standardized across the board.

Okay do we have any other issues you think we should discuss to the interests of our panel?

MR. BOLGIANO: No questions. Thank you.

MR. TRAUB: Thank you.

MR. HAASE: Thank you.

MR. JANSSENS: Thank you.

MR. TAYLOR: We're a bit ahead of schedule, but I guess that's better than the alternative. Let's switch to panel two. Would the panel two people come up.

All right. This is our second panel. We're moving to Operational Considerations Concerning Unique Counterparty Identifiers. Some of this was touched on by the first panel, but that's nature. Let's move first of all to the question of what utility or registration authority can assign and maintain UCI in compliance with the
principles in the proposed rule and on the
timeline of our final rule.

MR. CHIDSEY: I guess I'll start. This
is Ed Chidsey from Markit Group. I'm responsible
for our pricing and reference data businesses. So
just to start off, I'd like to just thank the
Commission for the invitation to participate in
the panel today.

As many of you may or may not know,
Markit has deep experience in the entity and
reference data identification space and has played
a critical role in providing identification
reference data for risk management trade
processing settlement purposes throughout the
financial markets and primarily in the OTC
markets. And we're looking forward to
participating in today's discussion and learning
from the other panelists and hopefully
contributing based on our experience.

So with respect to this particular
question, with proper governance and oversight,
our view is that really any third party service
provider, whether it be a data vendor or a utility
that has experience in the entity identification
space, could play this role. Again, the key here
would be adhering to whatever standards are set,
having some sort of an industry and regulatory
oversight committee that would be able to
participate and monitor the operation of such
entity and see that it adheres to the guidelines
that are agreed.

MR. HARRINGTON: George Harrington from
Bloomberg. Also thank you very much to the
Commission for the invitation to appear here.

We work as a provider of execution
services and more likely than a swap execution
facility. It is very attuned to the needs as far
as the unique universe of users that are out
there, not just from a data standpoint but from an
actual execution standpoint as far as identifying
who the counterparties are to a trade.

When you move to an execution mode in
today's world, obviously in OTCs derivatives and
other asset classes, it's a very bespoke market,
and I think the move towards a unique identifier system is something that will increase efficiency and certainly assist with vendors like ourselves and our competitive being able to track and certainly to identify from whatever our reporting needs are also required, put information out to the market as required by the legislation.

MR. MARNEY: Maybe I'll finish out this side of the table. Pete Marney from Thomson Reuters. Again, thank you very much.

So I don't think any of the existing identifiers are fit for purpose in the guidelines that have been laid out. They would require a fair bit of change, which is possible, but I would like to raise the point though that achieving the guidelines of no intelligence, extensible permanent, which means that you never delete and so forth, is relatively straightforward to achieve; and I think that can be done, but as soon as you do that, then you're putting all the burden on the reference data that sits behind it, the data model, the business rules, the presentation
of the data, the relationships that come with the
data. In effect then, the unique identifier
really just become the tip of the iceberg, and so
much more of it has to happen below the line. I
think that's what really merits the most focus and
the most attention in this because that's what is
going to drive the value.

Doing that in a federated way I think
would be extremely difficult, and it's very
difficult to manage if you have all the individual
participants who are responsible for managing that
content. Not to say that necessarily centralized
is the way to go, but having it all federated
makes it very, very difficult to do.

MR. GROSS: Francis Gross. Just very
briefly, I tend to agree with the last statement.
However, the process is organized, it would be
much better if every data set went through an
obliquity point of passage, a unique one, wherever
it comes from, wherever it goes after.

MR. PREISS: Thank you. I'm Scott
Preiss. I'm vice president for CUISP Global
Services, and I'll follow suit with my colleagues and thank you for the opportunity to be heard today.

I'm really here to share our experience as being a numbering agency in the U.S. and Canada and 35 other countries for the past 40 years to provide unique identification for issuers, obligors, and underlying instruments. So that is quite broader in the public markets than today's specific discussion, but nonetheless, it seems to us that there are existing frameworks, including the international standards bodies as well as industry subject matter experts, including information providers, that have already existing structures, know how to perform the duties and obligations of a registration authority, and have existing infrastructure and expertise.

So we very much see this progression as a collaborative model and really one of the key challenges, of course, is putting one's arms around who the key stakeholders are, who the subject matter experts are, and in the end only
execution and sustained investment and commitment
over a long period of time will meet the industry
requirements.

MR. JORDAN: Hi. I'm Ron Jordan. I'm
wearing two hats here today, Avox and DTCC.
Briefly, DTCC is a participant on ad cost utility
that is based in New York but is certainly global
in reach. And Avox, which is a wholly owned
subsidiary of DTCC, is one of the world's leaders
in the maintenance and validation of legal entity
identification. It has been around for about 10
years. It is UK-based and was purchased by DTCC
back in July.

We believe that, obviously, this is not
just a CFTC issue. Whatever happens here, the SCC
is watching and in particular the OFR, and
whatever solution comes out of here needs to be a
single solution that can apply to all plus
eventually European regulators.

We believe there are two functions here,
and I think Peter touched upon this briefly.

There is the assignment of the number or the
registration authority, but then there is the activity to validate and maintain the database, the attributes of the database, and make that available to the public or to whomever else, which is, we think, a lot more challenging than simply the number assignment.

And then finally, we believe that the characteristics that a utility or registration authority need to have is several, really three. Number one, there needs to be proven capabilities, we think, to get to market quickly. Second, we believe that this needs to be a global solution, and there needs to be global acceptance to whatever solution is undertaken. Third, there does need to be proper governance because the facility will change over time, and those who are most affected by it, those who are paying the cost, need to have a place at the table in governing the utility on an ongoing basis.

MR. PERSSON: Complementing on that is that you asked which utility. So first, what is a utility? I mean, we are serving the financial
industry, governed by the financial industry now
for more than 30 years and considered as a utility
by the largest firms.

I think to come to a solution for legal
entity identification, it must work through
collaborative models because it is too important
for the industry at large to look only at it from
a unique perspective. It has to be between
partners this can work, and I think that's how it
will be utility; and the governance beyond these
utilities is important as well.

MR. TAYLOR: Let me ask you all a
followup question. I think I heard, but tell me
if I'm right, a general view here that you all
believe there ought to be a single
utility/registration authority for the issuance
rather than multiples; is that correct?

MR. PERSSON: I would say what's
important is the responsibility. It can be
distributed, but somebody must have the
responsibility to make sure that the criteria that
must be defined about quality and adoption and
distribution of the data are met; and that is one responsibility. All that is distributed is the responsibility of that registration authority or the partners in this picture.

MR. GROSS:  Francis Gross. Perhaps we could differentiate the debates by considering that the process will have several stages, and that each stage could be subject to different organizational settings. Some stages data production, for instance, might be decentralized, but this obliquity point of passage could be central.

MR. CHIDSEY:  I would argue that what's most critical is a global standard and global agreement on how the utility or utilities or firms that are running this would operate. Theoretically, you could divide responsibility amongst jurisdictions, but the most important thing is to ensure that there is a global set of standards and guidelines.

MR. JORDAN:  I would second that, but I would also say we do believe there is a
distinction again between the registration
authority and the utility which is managing this.
So while you don't need the same entity to perform
both functions, we do believe it's probably most
effective if you have a single organization
responsible for each.

MS. LEONOVA: Again, let us catch up our
new participant, Ola Persson from FINRA. We
already started 15 minutes, so if you want to make
a quick introduction.

MR. PERSSON: Sorry. Yes. I'm Ola
Persson from FINRA. I'm the director of trace and
fixed income strategy within transparency
services. So to the extent I can help by shedding
light on transparency services.

MR. TAYLOR: We started a bit early, but
we've begun just with the first question about
what utility or registration authority can assign
and maintain a unique counterparty identifier. Do
you want to jump into that discussion?

MR. PERSSON: No. If you don't mind,
I'll listen for a little bit since I just walked
in.

MR. TAYLOR: Sure. That's all right.

Thank you. Another followup question. Our first panel, if I understood properly, was saying they thought the time to implementation for a unique counterparty identifier would be quicker if we can find a way to use an existing identifier and elevate and adapt it as needed but not to go down the road of creating something new from scratch. I think I hear you all saying something similar here that we might move more quickly to implementation if the utility registration authority is an existing organization adapted for the purposes. Am I hearing that right?

MR. PREISS: I would like to react to that. To the extent that any collaborative model already exists in the industry and is at least satisfying some of the requirements that have been set forth, I wholeheartedly agree that existing infrastructure and subject matter expertise should be used.

And if I can just add on a comment to
your prior question in terms of is a single utility the best model. Now I agree with several of my colleagues around the table that there seems to be a difference between a registration authority and the underlying utility function. Ultimately, there needs to be a single accountable source, and being in the unique ID business for as long as CUISP has, we know firsthand whenever that cannot be tolerated is duplication. And so if we have multiple parties generating multiple identifiers simultaneously in any sort of shared pool model, that sort of defeats the very purpose. So there is room for collaboration, but in the end there needs to be a single accountable party.

MR. JANSSENS: That confirms what we said, and I don't think there is anything to add.

MR. MARNEY: So to the prior question, we agree. I think it could be a hybrid solution, and it could work very well.

To the current question on the table, I think using the existing is a good bias for entering into the decision or entering into the
analysis, but I don't think it necessarily is a foregone conclusion. Again, to tell you for sure, for us internally, we decided to go new rather than adopt something that was existing. It made a lot more sense for us. I think it just requires thorough analysis.

MR. TAYLOR: Now when you say "going new," you're talking in terms of a utility registration authority?

MR. MARNEY: Right. Rather than adopting an existing standards.

MR. TAYLOR: Right.

MR. MARNEY: But I think going in with the bias at the outset to look to extend an existing because there is infrastructure in place; there is networks in place; there's processes, and there's software that can be extended and so forth is probably a good place to start but not necessarily the obvious answer or the foregone conclusion.

MR. HARRINGTON: I think from the perspective of Bloomberg, our firm connects to
everyone around the table in one format or another, and I think we're all experienced with the matching tables that we have, which is our identifier to another identifier to another identifier. Therefore, the move to use some existing infrastructure I think is definitely a good idea, but it is the question of how do you start that process because, you know, there are so many standards that are out there right now. And they're mainly disparate obviously. You know, DTCC in this space has done a lot of excellent work as far as at the legal counterparty identifier level. So I think, you know, that's someplace where you can certainly look to start, but I think that because there are so many standards out there that it's going to be something that has to be evaluated carefully as far as a system that everyone can use.

Then the next question, and I think there will probably be a separate roundtable on this, will be the interconnectivity standards as far as how those are going to be communicated.
MR. MARNEY: One further thought too is scale, right. Depending upon exactly what you're trying to address, and some parts of the documentation talks about extending this to all financial instruments in all jurisdictions. And then that just explodes it expeditiously, and I think that makes it a very, very different game than if you're talking about a relatively finite universe.

MR. JANSSENS: This ties back to what we said in the first panel, is adoption by the industry and the cross-referencing is a key element because all the industry, as constructed one way or another, it's internal system for identification of entities. And this is bespoke. This is legacy, but it is embedded in all the systems in any large firm.

What is important if we want adoption and global view so that what needs to be consolidated can get consolidated based on one foundation block, which is this unique legal entity identification, in order to make that
adoption, it need to cross-reference to all the
existing codes which are out there, which each
firm has already cross-referenced to its internal
legacy system. And that is where this will gain
traction and adoption.

MR. CHIDSEY: I think the next panel
will clearly be interesting to get a perspective
on the implementation challenges and what we need
to consider because ultimately whoever the
authority is really needs to ensure that it's
something that is going to work and be easily
integrated, or as easily integrated as possible
into the various processes and systems.

But, again, you know, similar to some of
the earlier points, the relevant thing here is for
whatever authority and whatever firms are involved
in this should have experience, should have the
infrastructure in place.

I think the identifier itself is
something that, you know, collectively will come
to what that ultimately should look like, and
there's probably not a specific solution out there
today that's perfectly fit for purpose or will adhere to those standards. So the identifier itself will need to change, but ultimately having, you know, the infrastructure, the capability, and the knowhow within the organization in this space is going to be critical to make it successful.

MR. TAYLOR: You actually started on the very next question I was going to put to everyone. Let's do that.

Can we sort of collectively list here what you think the characteristics are that it's essentially for the utility or registration authority to have?

MR. JANSSENS: Let me start. I think the first characteristic is experience and infrastructure in place, and that is also adoption already of the code by the financial industry is also a key to start because that will help making the whole thing glued together and going forward.

MR. PREISS: I can add to --

MR. GROSS: Such a utility should certainly be nonprofit, be placed under
irreproachable internationally accepted governance
with technical competency, neutrality, and
permanence.

MR. TAYLOR: All right. Scott, I think
you were next.

MR. PREISS: Thank you. Getting back to
the characteristics of a UCI and ensuring that
there is uniqueness. You know, in addition to
Paul's comments, certainly there needs to be
assurance upfront that records of legal entities
are vetted, both from a system perspective, and
although I know there are different viewpoints on
this, you know, probably in a manual or personal
fashion as well, the key attribute of any unique
identification system is exactly that. We need to
guarantee uniqueness, and so whatever utility is
ultimately arrived at needs to be confronted day
in and day out with simple examples, ABC,
Incorporated, ABC Limited, ABC LLC, and that
decision needs to be made in real time to the
earlier point about time to market and
effectiveness.
So one of the key characteristics perhaps should be guaranteeing that there is primary source documentation to back that up. An analogy in the public markets would be having a draft perspicuous in the pre-trade space to ensure unique identification of an issuer, an underlying instrument, perhaps an obligor. The same sort of construct, we think, would be essential to a characteristic of a system here.

MR. JORDAN: Yeah. I think we agree that the characteristics outlined in the release are all valid, and many of those have been discussed here, proven capabilities, global acceptance, governance, et cetera.

I would say though that if you look at -- you know, Scott just mentioned some of the registration components. If you look at the utility components, I do think the expertise piece in maintaining and validating legal entities is very important. That really does mean how is the database populated? How do you go from 0 to 40,000 or 0 to 2,500,000 if you go to the full
extent of OFR? How do you do that, and how do you
do that quickly and accurately?

I also think the maintenance component
about how do you continually validate things that
change and how do you have a process to do that is
a key characteristic of what needs to happen as we
move forward.

MR. MARNEY: So I completely agree with
Ron's comments. I think there are challenges with
the uniqueness and the assignment of the codes,
but I really think the real challenge here is in
the management of the data in the background.

And going back to the previous panel, I
think it was Mark's comment about Master Data
Management, and you need some real proven
capability there. Absent that, you know, right
now you have very little transparency and insight
because there isn't the standard. If you create a
standard for the unique identifier but not what
flows below it, all you've done is push the
problem one step downstream and you're back in the
same place.
MS. LEONOVA: May I ask a followup question. Sorry to interrupt you. It looks like we're talking about assignment of ideas by centralized (inaudible) and self-certification of an ID of guidance number. Do I understand you correctly?

MR. MARNEY: I think for me, my view would be that the assignment of the number can be very distributed or federated. I don't think that's really where the challenge is. There are plenty of examples of telephone numbers, IP addresses, and so forth, Facebook -- not Facebook. I'm sorry. It's not a good one, but IP addresses or phone numbers that work very well. I think it's what follows on from the data that supports those IDs is where the challenge is.

MS. LEONOVA: Yeah. But that's what I'm trying to get. So if you go with an assignment process, it's going to be centralized by the function to validate the accuracy of this data. If it is self-certification, we would assume that the party who self-certifies provides us data, and
somebody has to scrub it for accuracy.

What is the benefit and drawback for each model, or do you have references?

MR. CHIDSEY: So I think both models probably need to be explored. Self-registration is something that certainly could add a lot of benefit and efficiency to the process in terms of legal entities coming forward, registering themselves, potentially providing documentation. That documentation would ultimately need to be validated, but that could go a long way in terms of improving the efficiency and timeliness of these entities that need to be created and maintained.

And just one brief point to the prior question. One thing that shouldn't be underestimated is the amount of effort required to, you know, not only maintain but distribute and support the information that is going to be put into the marketplace, support the clients, the consumers of this information.

Whoever the authority is will be a core
part of the market infrastructure and really needs
to have experience in those sort of support
processes and addressing issues and concerns, and
many of us around the table do, but it's just
something that should not be, you know, looked
over because it will be a very important part of
the overall process.

MS. LEONOVA: I'm sorry to be one-trick
pony, but what is the most efficient, both from
technological standpoint and from cost standpoint,
the way it validates the data? Is the reference
data for (inaudible) you're talking about?

MR. JORDAN: So I think there's two
primary methods that keeps getting bunted around.
One is a self-registration model, and one is a
contributing model. Our opinion is that you need
both, that one is not sufficient. A self-
certification model or having the entity register
themselves, the information would still need to be
validated. You need to validate, did the person
who is submitting it have authority to do that?
Was the information accurate, et cetera? And then
there needs to be some type of change management process, even with self-validation. If something changes is that entity now required to submit that? We believe that some of that, if not all of that, may require some rulemaking to enable people to do that.

If you look at the other model, which is contribution, this is really the model that the Avox is based upon today, although the Avox does incorporate self-registration as well. But that's where a systemically important firm or any entity submits their information on their counterparties, and that could be 10s or 100s of thousands of them to a database. And that gets scrubbed by a group of analysts, including being able to be self-certified. It goes to public reference sources, registration authorities in the jurisdictions as well as other sources.

This is a very important component as well because what happens is, as we know, if you look at the top dozen broker dealers or banks in the world, they have a large overlap of clients
that they deal with, counterparties. So what happens is you start to develop a network science. Now I know Wiki is a bad word, but if you look at it in the best sense where you get a network contribution where seven firms or eight firms are dealing with the same entity, and they're all submitting information. They help cleanse that information themselves, so you do get a network effect. And what we have found in experience is if you have seven firms saying that an entity is defined with certain characteristics and then you have an eight firm who says it is different, it is usually the eighth firm who is right because they have some new information. They've been doing business with the client, and there are some updates. So those events will trigger scrubbing, additional scrubbing. So there is a place for self-registration or self-validation, and there is a place for the contribution model. And we believe that the right solution should combine both, and, again, that's what Avox is based upon
MR. JANSSENS: Yeah. Confirming that we should not make a selection between one or the other. The two are important, and the two will build upon each other. Also you had a question before about timing. If you look at self-registration only, your time lap will be much longer before everybody comes voluntarily to register itself. Whereas if you work by combination of both, the contribution model will help you gain the first layer of the data faster.

MR. MARNEY: So I understand the distinction in the question you're trying to ask. I guess in practical application of that I struggle to see where it's very different, but, again, I come from the bias of a vendor I suppose and the certain ways that we operate. One quick example would be corporate actions. So if you're going to allow the self-registration and the self update of that data and you're going to scrub it centrally, the person that's central still has to go collect corporate actions to be able to
validate. There is no source to go get it.

Corporate actions is one of the biggest things that plagues the finance industry in keeping that accurate and keeping that up to date. It is still very, very difficult today even with standards out there that are really growing and getting adoption. So I think it helps it and having the combination is good, but you certainly can't have the self-scrubbing and not the self-registration. You're still going to end up having just as large an effort in the central to make sure that you got it right.

MR. PREISS: I'd like to build upon some of the issues that Peter just raised. We're very intrigued by the notion of self-registration since we have so much experience in the contributed model. It seems to us that there's a bit of moving the burden of applying in a standardized fashion from a central utility to the entities themselves, and we wonder out loud what the motivation would be for entities to not only self-register but, to Peter's point, track the
life of that entity over time and contribute corporate action information, which is critical to efficient financial markets.

So your original question was about benefits and drawbacks. I wouldn't call that a drawback but really an open question. How does that model work in practice?

And so that leads directly to the second part of your question related to cost. In the end, if we don't end up with a single unique identifier, then what seems to be very cost efficient upfront in the end is not. So we wonder out loud as well.

MR. CHIDSEY: And just one final comment. I think we're probably all in agreement in general, but, you know, it is a combination because ultimately if I look at personally what we have today in market red, which is reference entity information for the CES market or a market entity identifiers, which are used to identify counterparties transacting in the loan market, it has to rely on a combination of a contributed
model, a self-registration model, and a proactive model where we're actively going out and looking for events or actions that have happened on those entities.

So it's a combination of all those things which will make a successful and robust set of information that can be relied on within the financial markets, but ultimately the validation of that information, the confirmation of the legal entity named the jurisdiction has to come from source documents to what Scott was saying. And the utility itself is going to have to be responsible for that to ensure the integrity of that data.

MR. TAYLOR: Before we move further down the question list, there is a question on here that I would sort of like to get an answer to. I was thinking how to put it. This used to come up in school elections for student government, if you remember. I should say, in terms of this question, it is perfectly permissible to vote for yourself, but the question is are there existing
candidates for this role and who are they? And I
guess I should flush that out a bit by saying, if
you look at the proposed role, it is assuming that
at least as a first step we want a UCI for swap
counterparties. That's in a sense a finite
universe. It's not yet the entire financial
sector. Although we want something that can
broaden out to the whole financial sector, the
immediate goal is an identifier for swap
counterparties, and the rule contemplates we would
like to have that in place by the time that swap
data reporting begins.

With that in mind, are there existing
candidates to play this utility registration
authority role and who are they?

MR. JANSSENS: Yes. We are a candidate.

So I vote for myself, but not on our own. I mean,
we can certainly be the registration authority
because we are playing that role already, but we
also want to work in collaboration. As Francis
said before, the characteristics that are out
there for the registration authority that are
neutral, that are governed by the industry, that
are not for profit, we fit those, and we have been
working with the DTCC, who also is utility to see
how we could corporate and come to a common
solution. So, yes, the answer is --

MR. JORDAN: I will put on my DTCC hat
and vote for Avox so I don't have to vote for
myself.

No. We do think that Avox has some core
capabilities here. Avox today has about 800,000
legal entities in its database, which it has
scrubbed on behalf of its commercial clients, and
we believe that the swap data repository is about
a universe of about 40,000 legal entities. We
don't know the overlap of how many of the
counterparties or parties in those repositories
are part of the current database, but we would
imagine there's a large overlap so that we could
utilize what we already have to get this going
very quickly.

We also believe, when it goes back to
governance, that, again, the cost-based utility
governed by its participants who are largely the
financial firms that we're talking about as being
the SIFIs and the other participants to the
markets really fit well.

When it comes to a registration
authority, we have been talking with all of them
potentially, and we think there is pros and cons.
As Paul just mentioned, we've had some extended
conversations with SWIFT as well.

MR. PREISS: I'm very grateful to my two
colleagues to my left for jumping on this question
first and setting the tone. I'm not going to
specifically vote for myself or my institution,
but it has seemed to us, you know, similar to my
opening comments, about existing international
standard framework.

There is an organization, a Belgium
corporation, known as ANNA, the Association of
National Numbering Agencies. It was created in
1991 with 22 founding members but today represents
over 200 countries in terms of issuer and
instrument unique identification. The membership
is more than 100 countries but, more importantly, those members are truly international in nature. These are international exchanges, securities, depositories, and some vendor participation as well depending on the market. So this is truly a global approach with an existing infrastructure and a very, very large database of issuers and guarantors already.

There has been talk in recent months about expanding what is known as the IGI, the issuer and guarantor identifier, which is a draft ISO standard, to expand that to cover counterparties, and a lot of the major market participants within ANNA, you know, think that's a very viable model. And CUISP is just one of those 100 plus members of ANNA, but we do think that's one viable model that should be examined.

MR. MARNEY: As a not for profit endeavor, I think I vote for my colleague from Bloomberg. Now on a serious note -- but I do really vote for George. Can we strike that from the record?
MR. HARRINGTON: I think it's on.

MR. MARNEY: We do have something like Thomson Reuters or any of the other vendors I think have quite a lot of capability to bring to bear for this, but clearly there would be considerations for how and why and what and so forth; but it's what we do.

MR. HARRINGTON: So I guess I need to comment now. Obviously Bloomberg does play a role in this space, and I think we've been very public with our Beason Strategy as far as publically disclosing, you know, our identifiers for use of market participants.

At the end of the day, I know that the regulators try and avoid picking winners for obvious reasons, but I do think that this is a space where -- and I want to credit the CFTC for taking this up, taking this particular issue up because it's a bold move because it really is going to be the first step in not just U.S. regulatory policy but international regulatory policy as far as, you know, the move towards a
centralized identifier, which will, you know,
really affect the entire global system.

And also I want to add one more point,
which is we need to make sure that we're also
thinking about not just identifiers from a legal
counterparty standpoint but also from a trade
counterparty standpoint because there are two
different components of that as far as the
counterparties who actually execute the trade and
the actual legal counterparts that underlie that
trade. Therefore, that needs to be brought in as
well.

You know, from an overall perspective, I
think there is certainly, you know, a space for,
you know, a provider, a not for profit provider to
put something into the market that all
counterparties can use. And we're all going to
have mapping tables at the end of the day that
will identify our own customer relationships, but
I really think it will increase the efficiency of
the market and, you know, lead to overall more
effectiveness of the proposed legislation.
MR. CHIDSEY: So just to throw our hat in the ring and make sure people are aware, Markit has implemented a somewhat similar system for the loan market where we've rolled out market entity identifiers as part of the automation efforts that are happening today within the primary and secondary loan market to automate the processing or settlement processing of trades happening in that market. And we've identified over the past 18 months 30,000 entities ranging from borrowers, administrative agents, fund managers to the fund themselves. So that identifier, although it doesn't meet the standard but the underlying process in concept could certainly be applied more broadly to the swap counterparties and the model that we've rolled out is really an open access model where those identifiers can be used broadly by market participants for the purpose of facilitating automation of the settlement processing in that market.

MS. LEONOVA: Can I go back to George's comment? Let's define terms. So I assume we are
talking about LEI as a legal entity that is incorporated and registered as part of a corporate structure. That's where we are right now. If we are going to execution trade branch, whatever level, it doesn't mean it has to have been incorporated in the system from the beginning or it is one of the expendable functions of LEI can be taken care of later?

MR. HARRINGTON: That's a great question. It almost opens up a broader question in this new, you know, swap world that we're moving towards. You know, there are a number of identifiers where you're going to want to have some sort of identification.

For example, for our swap execution facility that we're building and listening to the regulators, there is relationships that we need to understand with the central counterparties. So that's sort of like the first step as far as, you know, where is this trade going to clear.

Therefore, that's a level of identification as far as who is using the system from an acuity taker
standpoint. Who is their DCM, how their accessing, and then obviously what is the actual CCP? So there is a string of identification there. There is a string of identification as far as the actual executor as far as who is actually seeking liquidity, which is often times an entirely different level where an advisor is executing on a group of legal counterparties.

So I think that there are levels of identification. I don't think we can finish this job and say, okay, you know, one, two, three, four is this firm, and, therefore, we're done. There really is a string of identification that needs to be done.

So the complexity of this effort is very high, you know, and I think that around the table we all have experience, you know, in providing levels of that. I think to push this off on a regulator and say, you know, come back to us and give us an answer is not fair. I do think that this kind of collaboration around the table is the only way that we're going to come up with a
successful strategy.

MR. MARNEY: So I don't think you can stop at just a legal entity identifier or just legal entities. In managing a counterparty database you need to get down to subsidiaries, branches, divisions, affiliates, all that stuff, and that gets -- you know, I'm getting some nods around the table -- that gets very, very messy and complicated; but it's essential if it's going to work.

MR. GROSS: Francis Gross, just short remark. I think that we are trying to tackle a problem that we have patiently been building over the last 30, 40 years of globalization and IT intensification. So we might as well sort it in stages over the next few years, learning along the way. Let's be patient but start with things we can do now.

MR. JORDAN: I think there's a phase implementation that we have to look at here, and I agree with Francis. And I think there's really two distinct conversations that I see here and the
first panel started to get in. What is the core information that is required to identify a legal entity? And I would even add to that, that would be publically available or could be validated from publically available sources. And the core of the utility that we're talking about to me is narrowing defined that way, at least for the first phase, but there's a whole series of information after that, some of which was just discussed. We also have to talk about hierarchies of information and how you create hierarchies, et cetera.

Once you open it up, the complexity becomes much more difficult, number one. The costs go up. Because a lot of this information is not based upon publically available sources, the ability to validate this becomes not only more difficult, but the reliability may go down as to accuracy.

And I think while all of these components are over time important, I think this is a question about if we can establish a core set of publically available information on which all
vendors, users, et cetera can build on and start building these other types of functions, that's the right way to start.

A facility could certainly collection information and make it available, and whether that's available publically or not publically is going to be determined by regulators and by the industry themselves. But I do think this is case where if we can walk before we run and get a core set of information that the whole industry can use in the appropriate ways, that is the right way to approach this.

MS. LEONOVA: Just to make sure I understand to you correctly, so you are saying that (inaudible) or starting from LEI and going down is technological feasible way to do it?

MR. MARNEY: Absolutely. Definitely feasible, but it's a matter of having the extensibility within the system, the ability to handle it and adapt to it and take it on. But it's true for any database that you're building, certainly for a counterparty database. No one has
got one that's absolutely completely. They're always constantly building.

MR. JANSSENS: Maybe one comment, I would say it's bottom up because let's first have the first building block stable, and there we can build upon. And the base has to be solid, and then we can start to add to it and build stages upon it in phases with all the expertise, which is in the market, which is around the table today. We can work and come up to solutions easily, but the first element has to be clear from the start.

MR. HARRINGTON: I agree with you, Paul. I think that if you look at where the market is today, it is absolutely bottom up. So obviously, Ronald with DTCC, you know, that is the bottom, right. So in other words, that is just the pure counterparties who face one another. They are identified against one another.

It works, obviously, very well globally, but now we really need to start from that building block and start moving up the chain. You know, obviously, if you look at the goal of a swap data
repository where you have reporting and all those
things around that, we're very much at the bottom,
and there's, you know, a succession that needs to
be built up from there.

MR. JORDAN: So I just want to chime in
and agree that the LEI is a logical starting
place, but now I'm confused whether that's top
down or bottom up. I'll call that sideways.

But I do want to agree with some earlier
comments made by Ed. I think there's a tendency
in the industry to underestimate the amount of not
only sustained investment but heavy lifting that
goes into maintaining that database overtime, and
that should be repeated at every possible moment.

I would also say there are some
conflicts in the various proposals out there
speaking about legal entity identifiers, and so
simultaneously I hear phrases thrown around like
utility, and cost recovery, and entirely free, and
then just now I heard about hierarchies. And
anyone that's been engaged in the business of
building hierarchies and who owns whom and to what
percentage, and I'm sure most of my colleagues
have been in that business and still are, that's
not something that's done cheaply, especially if
you need something that's done particularly well.

MR. TAYLOR: We've done these questions
a bit out of order but that always happens, and
it's perfectly all right.

You all have emphasized that quality
assurance is a key to making this work. Let's
talk a bit in detail, if we can, about what
quality assurance purposes are going to be needed
to be used by the utility registration authority,
whoever it is, and what data is going to be needed
to ensure that we have a trusted auditable method
of verifying identities.

MR. CHIDSEY: And we've touched on some
of this but, again, it comes back to robust
operational process. You know, as new requests
come in, however, they come in, the initial step
is to make sure that the entity doesn't exist and
that you're not creating any duplication in the
system.
And then importantly is ensuring that the scrubbing that takes place and access to the source documentation, review of the source documentation has to be from whatever the accepted sources are in a particular jurisdiction or, you know, what is agreed ultimately by some sort of a governance committee. But it really comes back to, you know, the source documentation and ensuring that a consistent process is followed before the entity is ultimately committed to the database or at least flagged in some way as validated.

And that speaks to a timeliness element, which we haven't addressed, but around the service levels that will need to be agreed. And a request comes in; there's an amount of verification that needs to happen before you would consider it validated and really want to use it in earnest throughout the financial system. So that's something we'll need to consider is, you know, what is that stage process for an entity to go through so that it gets into the system and people
can begin using it; but at some point it becomes validated based on source documentation that's been reviewed.

MR. MARNEY: So I would entirely agree with that. I think the entire process from end to end, all from the initial business analysis, and the rules, and what's acceptable sources that can be used, how it gets populated, how you make editorial decisions around that, through to inline quality control, quality assurance at the end, independent auditing, secondary sources to look at, multi-sourcing content, especially something like corporate actions that go back to something we referenced before. Everybody has to have multiple sources for corporate actions. No one has got it complete.

And then as Ed just mentioned, having the transparency to be able to go back to source document and have that available to end users so that they can validate themselves I think is very important. Everybody likes to be able to get back to the registration documents or whatever it might
be that was determined, and having that available
in the system I think is very key.

MS. LEONOVA: Since you mentioned
primary source documents and registration
documents, what is currently being used to verify
the entity or organization you're interested in,
in the organizations right now?

MR. PREISS: It sort of dovetails with
my comments. Beyond my colleagues' initial
comments, there's a multitude of official legal
documents that are used broadly today, tax
filings, financial statements, clearly in the
public markets, prospectuses, but there's also an
element of timing. When is that information
available and to whom? What's the earliest
possible view of the truth that we can, as an
industry, coalesce around.

And I would add that there needs to be a
greater understanding of the global rule set. So
in certain jurisdictions perhaps tax documents are
not readily available on public and/or private
institutions. The same holds true for
prospectuses, and so I agree with my colleague, Peter, I believe made the statement earlier. It's this type of forum, this collaborative spirit that's really going to bring these issues to the surface, and so I applaud CFTC for bringing us together.

MR. JORDAN: In each jurisdiction there are also some authorities, which in the United States is usually the secretaries of each state, where you're required to register. In the United Kingdom it's something called the Company's House, et cetera. But, you know, we caution there because there are update requirements in each one of those jurisdictions which may not meet the requirements of a database. For instance, Company's House I think you have to publish once every six months, so information can be outdated by six months.

So I do think, you know, beside the challenge capability that we talked about, and the self-validation, and the corporate action feed reading, and even periodic scrubbing of
information against these sources, I think there's a few other things. Each jurisdiction there is, we'll call it the meta-data layer here, where there is a series of documents and a way in each jurisdiction that you can go and validate those. We have developed, over the period of the last 10 years, a very elaborate meta-data layer on a country by country basis.

It's also against publically available sources, and that needs to be transparent. That's the other thing. The database needs to articulate where the information is coming from and how it was derived so that any user of the database can see the sources, and we think those are some of the ways that you ensure the quality.

MR. HARRINGTON: I would sort of credit some of the work that Ed's firm Markit has done in the space as far as looking at the credit default market where you have obviously defaulting events. You have a process of sort of a lead up to the actual auction. Then you actually have the auction settlement. I think that, that type of
format of disclosure is something that can be
looked at as a potential model.

Now obviously we're talking about, you
know, the actual. That's sort of a small window
into a much larger world when you're talking about
the legal entities. So obviously there's a lot
more information that would go through there, but,
you know, if we could move that type of a model,
you know, into the public forum with some sort of
regulatory oversight, I think that would benefit
all market participants.

MS. LEONOVA: Ola, I feel like you're
left out. Do you want to say something?

MR. PERSSON: No. I mean, certainly the
problems we face just maintaining our very limited
universe is echoed, and this is going to be
plentiful. I mean, one thing that comes to data
maintenance that I think is regulated we want to
consider is how do you ensure a proper audit trail
so you for regulatory purposes can go back on an
audit trail.

We know this universe moves very quickly
over time. For us, it is obviously a key component. How do you ensure that you can go back and look at events that have taken place over time and then link them together? That is a key component of a regulator.

MR. TAYLOR: A couple of you touched on a question we were going to do a little later, but let me ask it now. What turnaround time frame is needed for assignment of a UCI to an entity that seems one?

MR. JANSSENS: Well, in the turnaround time there is -- first of all, we need to make sure that the data has been vetted and is of quality. So I, again, think that's more important than the time. But then the processes that need to be in place can probably be in phases as well, that the data is made available in less than 24 hours but validated in maybe 24 hours as well, depending on the jurisdiction, if the public sources are available. It can be done in 24 hours. If not, they should be marked as not validated yet and distributed because if an entity
needs a code in order to trade or to enter into a
transaction with a party, you cannot hold it from
doing a transaction because a code has not yet
been identified.

MR. CHIDSEY: The only comment I guess
to add to that would be that, you know, we're
talking about identifying parties to financial
transactions. So in order for that financial
transaction to happen between two institutions,
there normally is, you know, some sort know your
client and upfront due diligence that happens
between those two counterparties.

So it speaks to at what point do you
insert the creation of the legal entity into the
overall financial process. And, you know, the
further upstream that you go in interacting with
market participants and, again, coming back to
some sort of self-registration to alert the
authority that a new entity needs to be created
will be critical because, you know, I think the
timeliness, once the request hits, you know,
ideally it would have to be created in the same
MR. MARNEY: So I think -- I'm sorry, George.

MR. HARRINGTON: Go ahead.

MR. MARNEY: I think it depends on the use case and what you're trying to solve for. So on the creation, is it to enable workflow, or is it for reporting purposes? I think that gives you very different answers. And then for the utility or the reference data that we're talking about, I think that's also a very different thing where there could be timeliness requirements for keeping it up to date maybe different than timeliness requirements for the availability of the service. Because if you want to look to see if an entity already exists, you have to have a live credible service that's available all the time. If a new entity is going to be created and it's for reporting purposes, then maybe the timeliness requirement is a lot different. So I think it really depends upon the use case that you're looking at.
MR. GROSS: A very brief one on the use cases. I think that if we want to have an identifier that's accepted everywhere, we should create an identifier that's really useful for everyone and that ultimately perhaps after a longer phase will be used also for all business processes, therefore, the registration and the utility too. It should serve the fastest needs of all the using business processes.

MR. TAYLOR: We are actually out of time, even though we had 15 extra minutes. I'm pleased that this topic was so interesting. There are a couple questions I hoped to get to that we just didn't, which were to talk in more detail about how and by whom the system should be governed and what level of fees are sufficient to make it work. If any of you have thoughts about that and would like to send us them in writing, we'd be happy to put them in the comment file as well, but I don't --
MR. TAYLOR: So, if people on Panel 3 could come up to the table. Bring your name tent. Start filling from down by us if you will, but you're going to need all of both sides, I think, because this is a large panel. (Pause)

MR. TAYLOR: All right, we are back. This is Panel 3 of the roundtable, Implementation Considerations Concerning Unique Counterparty Identifiers. I think the first two panels thought this panel was the one that was really on the hot seat. We will see. And I think maybe the participants did, too, because we had more requests to be on this panel than maybe any of the others. So, let's start with the first question we had posed, which is: What are the technical challenges for timely implementation of a UCI? Anybody want to go first?

MR. PUSKULDJIAN: I guess I'll start. I'm Paul Puskuldjian from Citi. I've been
involved in infrastructure operations in the financial services industry for over 20 years, so I've seen many identifiers created whether it be by an industry participant, a vendor, an industry utility -- many different identifiers created. We view this certainly as something that is very much needed in the financial services industry and, quite frankly, I think a really good idea. It should be noted, though, when you think about the technical considerations that most of the financial services firms have a lot of technology that has adopted to all of these other identifiers in the past, and, you know, to bring that all together and create some harmony across all of those internal applications is going to be a huge mapping task. But that being said, I think it's certainly a good idea. We certainly support the fact that there be one identifier globally, if possible, and that if that identifier could be developed by an industry utility, that would make much more sense than having it done by a vendor or
I'm President of Financial InterGroup Holdings. We basically develop joint ventures in the financial services industry. And my partner is, in this joint venture, a GS1, who if you were here in the earlier panel you heard -- Mr. Traub -- describe the GS1.

I'm here both in representing my company and representing that joint venture. We call it the Global Financial Services Data and Standards Alliance. And in the last month we have opened up what was private deliberations among 16 global financial institutions and global standard setting bodies and a few other interested parties to broad discussion across the entire globe. We invited 500 people of which 100 were on the call, and then we had another call in inviting that subsegment to our discussions.

Basically I'm here to tell you that there is a global numbering system that exists in the world that is used by companies. It's called
the GS1 system of standards. It's basically developed for the trade supply chain; and the members of that organization, 1.5 million who are basically collected around 108 registration authorities, would like to take the same methodology and offer it to the financial industry in cooperation with the folks here today and the people around our table so that we can begin to quickly identify all the legal entities that they have already identified and the others that need to be identified.

The identification systems endured for 40 years. Its manifestation for most of you is in the 40 million product codes that you see on commercial products -- basically, the bar code. In that bar code is unique, universal, and unambiguous numbers. Those numbers represent the companies, the locations, transportation intermediaries, and, obviously, products.

We think the implementation could be accelerated if we simply look at an existing system that basically came about not because of
regulatory compulsion but because there was a
business need 40 years ago. The most interesting
thing about the solution is that none of the
commercial interests then nor now in the trade
supply chain were disenfranchised, and none of the
commercial interests and business users of the
existing systems would be disenfranchised. We're
basically presenting a global mapping system that
everyone can use and a universal numbering system.

Thank you.

MS. GOLDMAN: I'd like to introduce
myself, Melissa Goldman from Goldman Sachs, and
also I'd like to thank you for inviting us to
participate at the panel.

I'd also like to reiterate the point in
terms of being supportive of a single UCI and
encourage the implementation of that across the
markets, across the globe. We estimate that there
are approximately 40,000 entities participating in
the OTC markets and that the complexity around a
rollout of that would need strong support from the
regulators in a unified way. We believe that the
firms, including the broker-dealers, would need to
engage in what would be a complex mapping
exercise, as referenced earlier, and that the
challenges around being able to do that is very
much dependent on the complexity of the
implementation within the firms impacted.

And we also would just like to note that
we believe that the identification of a registrar
should involve an open call to the market where an
RFI can be put forth and an evaluation of the
response to that RFI should be evaluated by the
marketplace.

MR. MAGNUS: Hello. My name is Arthur
Magnus, and I'm with JPMorgan Chase, and I also
would like to thank you for the opportunity to
speak here today.

Like my colleagues, we strongly support
the creation of a legal entity identifier within
the financial services industry. One of the
things that I think we need to be very clear on,
though, is exactly what is the purpose -- and we
touched on it in the last panel slightly, but the
question is what are we trying to identify, and what are the risks we're trying to manage?

If we're looking at the type of reporting I understand if there's marketing manipulation, which is one of the things this Commission is supposed to be looking at, then you need to understand who are the counterparties executing the trade. If you're looking at credit and understanding where there's concentration of risk, you need to understand who the beneficial owners are. The legal counterparty to a trade is frequently a combination of the two of those. And that is not a legal entity, by the way; some people call them an account.

So, we need to understand what we are identifying so we can understand the universe of what we are trying to do. I do believe that the technical challenges are we're going to have to get in a room with the supervisors, the regulators, the financial industry, and the vendors; understand what we are trying to identify; and then we can come up together with a
way of solving this problem. This problem is one that we've been talking about in the industry for a while. We have multiple solutions out there. And it's not something that's going to be easily solved through regulation but through working together and understanding how corporate actions and other things will affect those identifiers over the life of transactions that are going to be in the data repositories.

MR. SULLIVAN: This is Todd Sullivan from Morgan Stanley. I also thank you --

MR. TAYLOR: Excuse me one second.

It'll help if people push again to turn their mike off when they're done. I'll try to do it, too.

MR. SULLIVAN: Thank you for the opportunity to speak today. Like, all of my colleagues here, we strongly support the use of a unique kind of party identifier. Specifically, the technical challenges raised by this issue -- I'll make two comments. I'm sure there will be additional that I'll no doubt agree with, but first and foremost is a definition of what is a
legal entity, because I think there certainly is
an acute need under the proposed rules to talk
about counterparties to a swaps transaction.
However, without understanding or at least taking
into account other uses for LEI, whether it be
under OFR or other systemic risk supervision
analogies or, frankly, things outside of the OTC
derivatives market. So, certainly the requirement
to make filings as public corporations resides at
different levels within the corporate structure,
and those entities, when they make those filings,
are identified. To the extent we can anticipate
or at least plan for a contingency where there
might be unique levels of reporting requirements
or unique levels of relationship between those
entities, the more we think about that before we
implement a process, the easier it is to make that
extendable to cover those same requirements.

The second is, following on from the
previous panels that discussed the extension of
current existing platforms and potentially
extending the use of one of those current
identification systems to cover this requirement,
while the frameworks they've used certainly should
be considered as we build something, the challenge
for us as users -- and most of us sitting around
this table are the parties responsible for
reporting -- their numbering
systems/identification systems are fully embedded
in the hundreds or thousands of systems and
processes across the industry already.

You know, simply examples of a couple
things that have come up: DTCC participant IDs in
the OTC derivatives market-read identification
numbers under the market service are so fully
embedded in other processes that to change the use
there to extend it to cover UCI runs the risk of
significantly affecting the use for other
purposes. So, I think we should certainly look at
the frameworks they've used to build the systems
as certainly a starting point, but simply taking
one of those and extending it and saying it now
qualifies as a UCI runs a significant knock-on
effect risk to the other uses of those numbers.
MR. TUBRIDY: Hi. My name is Ray Tubridy. I'm with State Street, but today I'm here representing the FIA. We kind of came into this discussion a little bit late, so I apologize if I misstate or mischaracterize anything.

I'm part of a subcommittee for the OCR rules that were published by the CFTC, and we spent some time looking at the requirements and comparing them to the existing requirements that exist in futures. And within the futures industry, we do various levels of reporting, and we use unique identifiers today, mainly three: One, the executor ID, the one who places the order to the market; the controller, the one who makes the trading decisions; and the beneficial owner.

And so, you know, I echo Arthur and Todd's comments about we really need to define what this counterparty definition is, and the recommendations coming out of the subcommittee are that we try to leverage existing data where we can, minimize the amount of development in systems impacted, but, most importantly, be consistent.
across the products.

And now with the swap market come in to clearing, we have markets that are already clearing and that are struggling with some of the same requirements, and so we want to make sure that we are looking across these products and developing these new reporting requirements so that they will be useful across products when that time arises. So, consistency, keeping in mind straight-through processing, leveraging systems and technology where we can, and reasonable data requirements.

And so, you know, we have a lot of work to do between now and July, and we need to be reasonable about what we're asking for and knowing that maybe we can't get everything we want in by July but having a plan for where we're going to get that data.

MR. McCLYMONT: Hi. I'm Stuart McClymont with Deutsche Bank. Again, thank you for also to participate in this roundtable.

I certainly think that we definitely
agree with the mutual standards. I think we need to be careful, though, in terms of really understanding the process, the functions within the process, and making sure that we don't try and retrofit existing solutions into that process. I think we need a period of design amongst the industry both in terms of vendor supplies, users using our prior experiences getting industry together to work hard. Whatever we need. What should it look like? What are the current incumbents, and how do they need to be modified, and relegating that design, that understanding out first to redraw through what are the requirements of it. Let's get more clarity around why do we need these standard identifiers, and what is the report of (inaudible) to be able to support those standard identifiers and as a group of institutions, as users, as vendors agree that design, that infrastructure.

I think what we've done in the past is we kind of jumped into very specific areas like resembled that registration authority or we jumped
into the distribution mechanism or we jumped into the cleansing and process. I think we understand the whole request for identifier, the generation, the storage, the distribution, and the consumption. Restart thinking about (inaudible) a provider prospectus -- who's the provider of the service and what is the service they're providing and how do they fit within other providers of the end-to-end service. And then ultimately what are the consumers, what are they consuming, why are they consuming, and what they need to then to provide that downstream, and again consumers. I think without that we will probably go down certain routes, we will probably spend a little money, and I think, given the time frames that we've got to try and achieve some of this, we need to get to the table very fast as a group to start designing what the solution looks like and working out where the deltas are today.

MR. TAYLOR: That's -- sorry.

MS. YEE: Hi. My name is Lindsay Yee.

I'm from the Bank of New York Mellon, and I
actually work on the Derivatives Trading Desk itself where I manage the Trade Capture Support Group, and I support the traders' products and implementations.

I also agree that the unique counterparty identifier should be agreed upon. We need to figure out, first of all, what is the universal standard, agree to it, and then publish it.

Other things that we do need to also think about are the operational deployment within our existing systems, interface modification between our company systems and anything that we can leverage operationally within the organization, what maintenance needs to be maintained through the internal systems, and the upkeep -- who's going to be responsible for that. We're going to need extra funds for it and resources with people as well.

MR. TAYLOR: Anyone else want to weight in on technical challenges for implementing the UCI? If not, we had a minute ago --
MR. SULLIVAN: One more comment.

MR. TAYLOR: Sure.

MR. SULLIVAN: It's just that there was discussion before about the timeliness and how fast we get this back. The technical limitation I think should be looked at in two different ways. One is ongoing once it's running -- what is the service level agreement expected by the users of the service? The other one is obviously the day you turn this on, right? -- how fast do we expect to get data back? -- because, I think, you know, a lot of the debate about a contributed versus a self-registration model raises issues. If it's contributed and you have the top 20 banks contributing all the data at once, you're likely to have at least 15 repeats of everything, all the major participants in these markets. So, you know, thinking about how we go through that process and how long it takes to get through that initial scrub. And then there's an ongoing new entrance and maintenance exercise, which I would expect to be looked at in different timelines.
MR. MAGNUS: I would also suggest that
the creation of data might take -- you might have
more time to create something once it's up and
running because of the time it takes to do all the
KYC as was mentioned earlier versus some change to
the data, which might need to be made rather
quickly if we want to be able to use the data in
the repositories in a timely manner.

MR. TAYLOR: Anyone else on technical
issues? Well, let's move to -- it's a big
question: How can industry consensus on a UCI be
achieved? I mean we've heard from all three
panels, I think, this morning a general agreement
that we need a UCI. It's heartening to hear, you
know, volunteers, people voting for themselves as
being the utility or the registration authority.
Obviously, there's a question about how do we pick
a solution, and I think it's clear from what we
said in the proposed rule the Commission, at any
rate, prefers not to pick, that the industry would
come together. You all are the ones who are going
to pay for it. You all are the ones who are going
to use it. You are all the ones who have the
technical expertise in it. So, the question is
how can an industry consensus be achieved. And
maybe let's start with -- we have to break that
into its components -- what institutions need to
be involved in that process?

MR. GRODY: I'd like to discuss that.

MR. TAYLOR: Go ahead.

MR. GRODY: First of all, let me just --
besides announcing my affiliation and my company,
I would like to give you a little background,
because I've lived through six decades of the
financial services industry, and I've had 50 years
on Wall Street, and people say I can't be that old
but that was my first job out of school, working
in a luncheonette on Wall Street, so I like to
date my experience from that point. But I've had
45 years of business experience over six decades.
I was there when CUSIP was thought of,
and when DTCC was first invented I was there at a
bank when we installed SWIFT. And I've been
through a number of generations of this. In 1995,
I called the first cross-industry standards conference where we had the world standards organizations around our table to discuss the problems. And the chairman of the standards, a board that was called at that time, was the chairman of the World Federation of Exchanges -- then it was called something else -- and he had worked for three years to try and build consensus. And he concluded that the standards organizations were in competitive businesses and they couldn't be brought together as a group.

What's different today is very simple. Unlike all of these other attempts, we have regulatory compulsion. And you are the most important part of getting us around a table to solve this problem. Every one has a vested interest, and they should. They have done a Herculean job in supporting the industry. What's different today in our world, in our global financial services data and standards alliances, we brought the corporate issuers to the table and their auditors, people who heretofore have never
been involved in the thought process of solving this problem, people who we want to give numbers to: General Motors, IBM, Kroger, Walmart, all right? They have given themselves numbers in their other business, producing their commercial trade products. They are now at our table in the form of GS1 saying we believe straightening out the financial supply chain is important. They never knew what happened after the board met and approved a corporate event. They never understood what the investment bankers, the accountants, the lawyers were doing with those pieces of paper.

We have a role for XBRL in translating the success of financial statements translated into XBRL. We all understand how successful that project is. We want to move that project forward to get the data from the prospectuses, the memorandum, the ISD master agreements. Even the financial announcements, the corporate events, from paper documents into XBRL templates so we could provide the data for the extensions of these uniform codes that we wish to provide to the
financial industry and to databases and do it in a
straight-through processing way that we've always
wanted and never included the people who were at
the top of the financial supply chain.

Mr. Sullivan: I might suggest perhaps a
different way of saying it and probably a very
similar message, but we have very active industry
groups formed across the financial service
industry, a number of which you have already met
with numerous times representing both buy-side and
sell-side institutions. They have to be at the
table.

You, your colleagues at the SEC, your
colleagues at Treasury, your colleagues around the
world, the FSA, the European regulators en masse,
Asia-Pacific regulators need to be at the table,
and I think obviously the service providers who
are vying to play different roles within this
process need to be there. And those are the three
major constituents that need to be represented --
the participants in the market, the regulators
across that market, and the people providing the
services. The ideas are going to come collectively probably from all three, but the service providers are going to be there as a sounding board for how to come up with a solution.

The participants in the market are going to know how they're going to implement that, and the regulators play the most key role in ensuring that we have a single, global, consistent set of rules that we're trying to comply with. Having solutions that are different in North America from what they are in Europe or what they are in Asia - or that diverge over time will make this unimplementable. But the three groups together can come up with the mandate -- I think Stuart was specifically addressing that -- defining what is the problem set that we're trying to solve for. And then we can derive consensus from that group.

And then, you know, I think Allan's absolutely correct, the world is different than it was 40 years ago. There is no passive sitting by and just let things happen. Those options have been taken off the table. So, I think that group
sounds daunting. It's huge. But, frankly, we've proven over the last five years, certainly in specific asset classes we've done this. You know, that is the only model that's going to make an effective answer.

MR. TAYLOR: Let me ask a quick follow-up for that, because I thought I heard this. From both of you are saying, you're talking about getting those three classifications of stakeholders, shall we call them, around the table. Do you think there really needs to be a table? Does someone need to convene a giant meeting of all those folks? Or if it's not literally around a table, how do you do it?

MR. GRODY: Well, there's a model in the world today that did just that. That's the Basel Committee under the G20. And they created a capital standard for the world. It's modified. It's Basel III now. But it's the best thing we have, and they recognized of course that the weakest link will bring down the whole system. Systemic risk is what we're ultimately trying to
resolve. So, there is a table there, a bully pulpit, all right? And we're suggesting that the Financial Stability Board, while they have a framework concept around systemic risk, also create the framework concept around a global data standard and then push it through to the regulators across the world so that we can have a table up there that will watch over this data standard.

MR. PUSKULDJIAN: You know, just listening to the few panels that have talked about this, the fact that this hasn't been done before, you know, doesn't mean that it's not a good idea. Every single person that sat here said it's a good idea. The problem that I think we've had is that it there hasn't been some consensus -- global consensus. So, I think working the regulators, setting the framework, working with the industry participants can help us set that framework, and the industry participants working through what it is that the regulators actually want to be able to see I think will come up with a strong solution.
But I will say that it definitely has to be a global solution that all the regulators are supportive of and agreed to.

MR. McCYMONT: Paul, I would just echo that. I think we've been tremendously successful in the last five years as an industry to deliver solutions to improve our operation efficiency. Our approaches to our control reduce the risk in the market, and that's because we've had a group -- the OTC Derivatives Regulators Forum -- where's we've got a number of regulators around the world coming together with the community (inaudible) buy and sell sides to firstly set out what people's requirements are, what their objectives are, and there's some negotiation in that process but we always end up every year -- and we have done (inaudible) of the regulatory commitments letters to agree what those commitments are going to be both from a regulator perspective and also from a delivery perspective and from buy side and sell side. We then work with the vendors to identify solutions to (inaudible) commitments. But
throughout we've been very clear what are those commitments, what are the requirements? Do we both agree, and are they going up against what we both want? Yes. Okay. Now, what (inaudible) providers actually deliver a solution within appropriate time frames. So, I think it's that collaboration between regulators globally, the users globally, to identify the "what." Then we work through with the vendors to identify the "how." And then we work through again the time frames built to deliver against it. But I think we need to be very organized, very clear. And again it goes back to my original point. I think if we don't design the "what" as a community, we will end up spinning our wheels and we will try and retrofit infrastructure that exists and is perfectly good, but I think we should learn the lessons that we've experienced over the last five years in terms of building out standards around red IDs, around standard calculations, standard documents, how we approached that in the past and how successful we've been by that approach.
MR. MAGNUS: Yeah, I would like to support what Stuart said, because that model has worked incredibly well, and allowed us to bring things to market very quickly. We've made commitments on an annual basis and within a year made significant progress against those.

You know, I was actually involved in the Microform's Basel II program. That took probably 15 years before I even got involved, and it's now many years later and it's still being implemented, though it's not the time frame we're looking for in this particular endeavor. (Laughter) So, you know, I think if we can get around the table with the right subset using one of the industry groups -- and I would recommend to you SIFMA/ISDA to help drive either one of those two forums -- to get around the table and do what Stuart suggested, which is to identify what the objectives are and agree between the regulatory and supervisory community and the players in the market what the objectives are, we can then very quickly engage the vendors and figure out what is the right
technical solution to that. And that would be

certainly my recommendation for a quick fix -- or,

not quick fix but a quick way to a solution.

MR. TAYLOR: You're talking about, you

know, once you've got the principles you can look

at the vendors and make a decision. One of the

questions here is who makes that decision and how

does it get made?

MR. MAGNUS: The industry through the

IIGC in the past has done this in several

different forums, and the process for creating the

credit repositories that exist -- the equity

repositories, the fixed income -- went through

similar processes where the industry picked the

vendors to meet the requirements at the cost that

they thought was competitive. It was an RFP

environment. In some cases they issued an RFI and

then an RFP. The community that was ultimately

going to pay for it decided which vendor they

going to go with, with the help of the supervisors

to make sure that all the participants that were

bidding on it were actually delivering on what
they were looking for.

So, I think you have roles to play for
different groups. The regulatory and supervisory
community can help make sure that the vendor that
is selected meets the requirements, and the people
who are going to pay for it, which are the market
participants, get to actually pick the vendor and
their governance structure's in place that can be
used to do that.

And we can also make as part of the
requirement that we need that international
threshold, because there are things that can be
divided up around the world. If you look again,
the internet model was a very good model. It
isn't consistent across the world. There is one
body that issues and maintains sort of consistency
but then each nationality in each country does
sort of their own thing. And so there are
definitely lots of models that can be leveraged,
but that would be the way I would recommend to
move forward quickly.

MR. GRODY: I would like to engage the
panel here in discussing what is in fact the narrow focus that we are now discussing with regard to a quick solution to an immediate need by one regulator here in the United States versus the broader goals that are articulated by the SEC, the CFTC, and the Office of Financial Research with regard to the U.S. Treasury; and, of course, the signature on what they call the lynchpin report by many organizations in the government as well as FINRA.

It is a vision that is hoped for to be implemented. What we're talking about here today is the same, same-ol', same-ol', the silo solutions to get a relief in a particular jurisdiction, a particular market with particular regulator, when in fact the goals are much broader. And if we don't have a concept, like the internet registry for example, around legal entities that traverse every product within the financial space across the globe, we'll never get the permanent solution or reach the vision that we're looking for.
So, I'm suggesting that we are continuing to respond to the individual regulators for their immediate needs with immediate solution when in fact the vision is much broader and the interest in solving this problem permanently has always basically thwarted us.

MR. MAGNUS: With all due respect, that is not what I suggested. The IIGC is an international body of market participants. They have delivered international solutions in the financial market space, and they have worked with the international regulatory bodies to solve what are problems. While it would be a lovely thing to try and create identifiers that solve absolutely every problem in the financial services space, across every single aspect of financial services, I also believe that you need to walk before you can run and you shouldn't try and boil the ocean. And the space that we're talking about, the OTC derivative market, the global OTC derivative market, is a reasonably good proxy that if we solve it here we will end up with a solution that
can probably be used in a much broader concept, because the concept of who you're trading counterparties with, the legal entities I am trading with and the roles that they play in the market, are not inconsistent in other parts of the market.

And if we use the comments that Raymond mentioned earlier about the futures market, those same concepts, by different names, are used in other parts of the market. So, I do think that the solution that I suggested -- and I'll let my colleagues in the other financial institutions -- you know, they can contradict me if they like -- but I do think that will be an approach that would work and we can get a small number of people around the table to actually get to a solution quickly.

MR. SULLIVAN: I certainly would echo a lot of what Arthur just said. I think the key here is not that we're trying to get every possible use ever for some concept called the legal entity and find that solution right now.
But there are certainly a number of legislative mandates already issued, certainly a lot of global discussion currently underway about what the expectation is in other jurisdictions. And we know the vast majority of the participants on that side of the table, and getting them together to at least identify the places where although we don't have the rules written yet or even drafted yet we understand the concepts trying to be solved so that when we do build a solution that very narrowly focuses on solving the CFTC rules for a specific set of instruments in a specific market, it's an extendable solution that will fit the SEC's requirements, the OFR's requirements, FSA's requirements -- because those are being discussed in a collaborative and cooperative framework around the world.

The original question that started this current debate is do they all need to be at the table? I think the short answer is yes, to make sure that we agree high level the "what" and if there are still gaps we at least acknowledge where
we've got to build in contingency, because we've yet to define some of the possible uses so we don't build a framework that we end up throwing away two years from now because we finally got to understanding those other needs.

MR. McCLYMONT: I think, just to build on that, I mean what was the statement we said right at the start of today. It was we would like a unique and counterpart ID to be able to deliver effective, efficient transparency from a regulatory reporting perspective in OTC derivatives. That was our immediate open stance. So, if that's our objective, we need to say okay, what is the design? What is the process? What are the solutions to go to immediate objective?

I absolutely agree with Allan. We need to ensure it's not a silo solution. But I think again we've demonstrated in the past that a lot of the ways we've approached the derivatives structure in OTC have actually been (inaudible) cross into other products such as futures and cash equity. And even though they may be the more
mature products in terms of mature derivative structure, they've learned a lot of lessons from the build-out in OTC over the last 5, 10, 15 years and are now replicating in those asset classes. So, I think we would be foolish to build an OTC solution, and I don't think we would do that, but I think we just need to be very clear on what's our objective, what's our time frame, what our design would look like, and how we can accommodate that.

MS. GOLDMAN: Just to add on to those points, I would echo, you know, those same sentiments in terms of scope. I also think that the scope applies to not only the coverage but in terms of what data we're collecting and so to the extent that we understand the uses of that data and sort of plan our approach in a way that we collect the most critical information up front, and to some of the points discussed earlier regarding entity hierarchies, that we really identify a scope in the initial rollout that is specific to, you know, core information but we
also include major legal ownership in that
information in order to accomplish the kind of
systemic risk management that we're trying to
achieve here.

MR. PUSKULDJIAN: When you think about
the identifiers, you know, one of the things that
struck me was that the regulators actually use
different nomenclature when they refer to them.
The OFR uses LEI; you guys use UCI. We should, I
think, harmonize that so that we're all using the
same nomenclature.

And, you know, I think it's a great
thing that the people around the table actually
are familiar with the different regulators and
what they want to do, and as an industry we don't
want to do the small pull times. We don't want to
do something for the CFTC, SEC, and OFR. We want
to do it one time and be able to service the needs
of all the regulators. So, you know, I don't
think it's a very silo-based approach at all, and,
you know, with the right cooperation of the
industry participants and all the regulators who
are involved, I think we'll come to a very good solution.

MR. TAYLOR: I should maybe provide a word of explanation on that last point, because I'm the guy who wrote UCI in the rule. (Laughter) We did it on purpose. What we intend agrees exactly with what you say. We said "UCI" rather than "LEI" trying to recognize -- I mean, to me LEI is the term for the broad use of the identifier across the entire financial sector. That goes way beyond identifying swap counterparties. And identifying swap counterparties is sort of the job that was handed to us. We were handed a situation. Somebody said to me in the break, you know, the difference between the situation we all face today and what's existed for the last 40, 60 years when people have been recognizing for a long time that this was maybe useful is that you have regulatory compulsion. I guess we do. And on the schedule, the first thing that comes up is us coming up with an identifier for swap counterparties and swaps
under the CFTC's jurisdiction. But it's absolutely not our intent to be a separate silo. We're trying to walk in lockstep with SEC, you know, and to make a UCI, because maybe that's a finite early achievable thing, but to do it in a way that it can become the LEI -- if that makes sense.

MR. GRODY: Well, I can only tell you this. All right, as we have diverse interests around our global financial services data and standards alliance, the table that we would have to draw would be huge, because while these people represent domain knowledge in the over-the-counter derivatives market and in the futures market, there is a huge amount of siloed products, markets, infrastructure entities that support it with its own terminology in its own and within different geographies. It is a huge undertaking. It has defied solution to this point. It only gets more complex. That's why the difference being regulatory compliance to get us to do this. It's not easy. It's not going to be quick. But
if we don't come up with a framework, all right, we're going to wind up with siloed implementations against silo regulators, and we're going to have another level of complexity beyond what we already have.

MS. LEONOVA: Okay, can I ground this conversation? So, what is the first step?

MS. GROSS: Could I intervene? Francis Gross, ECB. I think we have two different sets of problems or challenges to overcome. The one is design of a standard, which needs to be done and agreed by the stakeholders. That means industry and the authorities that will use the reporting data. And the second one is to reach international agreement among the lawmakers in the various countries that will mandate that standard. One aspect we have already repeated many times is that we can't boil the ocean and serve all the needs at once, so I think we need to start with something feasible and where the need is immediate and try to design as much as possible upward compatible so that it can solve in service steps
the next generation of problems.

Now, under the design of standards, we talk about the very large table. Well, we could use an existing infrastructure. For instance, there is ISO. ISO is an international organization that has a lot of experience in building standards that are accepted by industry worldwide for the most successful ones. There might be other such bodies where industry comes together through these standards. Usually those bodies do not get a lot of attention, because people (inaudible) by firms are not very much empowered to do anything, but perhaps this time the attraction could be larger. So, that could be for the design of standards.

For the adoption of standards and mandating the standards (inaudible) I think we will have two things - one, the powers that be among the countries not come together. Now, I can say from Europe that thee awareness in Europe for this kind of issues is now growing. We are in contact with the Office of Financial Research.
Louis Alexander has visited Europe last week and talked to everyone whom I talk to here in Europe. And therefore we have a process of building a political will that’s well on its way.

Now, in the U.S. legislation is in place, and the U.S. is one country. It can go very fast and won't wait. Certainly not. Europe is a little bit more complicated, so what we need is to have as well in the U.S. standards or a set of standards adopted that will be acceptable to all and here if we adopt the solutions that, one, to go through a group like ISO, then it would be acceptable in Europe more easily.

The next stage is to initiate discussions, and here perhaps a forum like G20 could be the one. And also to include in the discussion institutions with a global reach, such as the Bank for International Settlements and the IMF. That could then bring together the countries that want to participate in the first round. And then I count on settlement of development of international pressure and through government and
through the industry as well for having further
gone to an end, and that way we could have a
mechanism that grows in a modular fashion.

MR. TAYLOR: All right, I thank everyone
on the panel. This has been very, very useful,
and there were some interesting suggestions on how
to answer these questions.

So that we don't run out of time, we
would like to move to our question-and-answer
session, and this is designed to let people who
are in the audience ask questions of the panel in
a sense over the whole discussion we've had all
morning about unique counterparty identifiers.

There is a microphone in the aisle over there and
a microphone over by the pillar over here so that
you can be heard asking a question. Please feel
free to chime in.

MS. LEONOVA: Arthur, I know you want to
do something.

MR. MAGNUS: Well, while we're waiting
to get the microphones, I was just going to answer
your question about how you can move very, very
quickly.

There is a SIFMA working group that is already set up that is looking at this problem that I believe the CFTC has already met with, and that includes representatives from the industry. The IIGC is ready to get involved also. I think as supervisors you can set a deadline, which I think you actually did in that forum, to come up with a blueprint or straw man for what those objectives are and get them on paper, and then we can move to an RFP-type phase. So, I do think we can move very quickly to get something that is practical in place, and it may change over time but let's get something in place that we can start working with.

MR. TAYLOR: Really quickly, as audience people come up to ask questions let me just ask around the panel, is that SIFMA-led sort of virtual consensus process, if I can call it that, do you all see that as a viable way to run this and is it inclusive enough? Are there others who need to be added into it?
MR. McCYLMONT: I mean, I certainly think in the past using is during CFMA we've very effective at delivering solutions to market. So, I think it's got a history that shows that that consensus collaboration approach between regulator, industry user, and also vendor and solution provider is effective, is the right way to go.

MR. SULLIVAN: Certainly given the changes to the governance model across the creation of the IIGC I think addresses a number of the legacy concerns that have been about the scope of representation. I would say that there is both buy-side and sell-side full-market participation. So, certainly for the industry participants and users of this process, we are well represented. I think ODRF is a great framework to look at for coordinating the regulatory side of the equation. I think both you and the SEC have been added to that group, so, you know, that's certainly the right foundation, and it needs to be expanded to address this more globally. Certainly we'd be
open to that. But I think there is both a global industry and global regulatory forum now in place. So, that certainly gets the two mainstream holders together.

MR. TAYLOR: Are there questions from anyone listening in the audience for the panel? There's always this moment of dead silence. And unfortunately I'm not a law professor. I can't call on you guys by name. But I'm sure someone has a question.

MS. GOLDMAN: No, I was just going to add to the question about -- to the message, and that we would agree as well that SIFMA has been a very productive way to sort of identify the items and propose some solutions around that, and so it's been a very productive forum.

MR. McCLYMONT: So, just also I think -- again I've said it a couple times now -- I think clearly defining the objectives and the requirements with the various stakeholders is a must, because we will do what we always do as I said a couple of times. We'll spin our wheels and
go off in different directions. So, I think that
fall that we had with, for example, the ODRF, we
managed to discuss with them what their thoughts
and what their requirements are to actually
solidify (inaudible) requirements, because often
people think they know what they want, but when
you actually discuss and explain well, how can you
get it, it's actually not quite what they wanted.
So, I think that open dialog to really clarify and
crystallize the objective of the requirements will
allow us to move much faster than into a
identification or a review of the process or the
functions that could deliver that solution and
then actually then the vendors and the design of
what the solution is itself.

MR. GRODY: I would like to ask the
simplest of the questions. Do the auditors of the
public companies have a role at the table? And
the reason I ask that is because the auditors
basically are given the task with the legal entity
that we're trying to identify to actually lay out
the structures of their hierarchies every quarter
and sometimes the bigger companies have permanent
staffs to actually resolve the legal structures so
they could apply their attestation function and
sign off on the materiality of their audits. And
we have always considered them in our construct to
be important, because they in fact organize
themselves around a database of those legal
structures -- the big four at least -- and they
have shared that knowledge with us, and I pass
that on to you to be a consideration.

MR. MAGNUS: I would consider we have to
go back to what's Stuart said a moment ago: What
is the objective? If it's to identify swap
counterparties, which are specific entities and a
hierarchy, when the client is a corporate that's
fine, but if the client is a fund manager,
managing multiple funds, a fund may have multiple
fund managers, there are multiple hierarchies, one
needs to look at. And so the question goes back
to what Stuart said a moment ago: What is the
objective? Is our objective to understand
counterparty risk? Is it to look at systemic
risk? Does it look at market manipulation or look for market manipulation? These are different objectives, and they have different hierarchies. And the financial auditors that you refer to are only looking at the corporate hierarchy, not necessarily all the other hierarchies. So, I think that you need to understand what the problem is and then you can bring the right people to the table to help solve that problem. But you've got to start with what is the problem we're trying to solve?

MR. GRODY: Well, the auditors do audit the investment managers, their structures, and mutual funds, and what they own and don't own in the same way that they audit corporations. That's number two, we continue to have a dialog about what I consider to be a narrow focus, which of course is the focus of the CFTC but always within the broad framework of the SEC's rulemaking and the OFR's rulemaking and the thought beyond that of a global solution. And so that's why I continue to suggest that the solution
we have here has to be framed within the context of the overall rulemaking.

MR. SULLIVAN: I think there is definitely consideration for that and probably hundreds of other uses for this data. The key is identifying the "what," which is the framework for writing a process to identify parties. And I use "parties," not "legal entities" because as Arthur has correctly said, there are multiple ways. A database that creates an identifier for parties, which then can be used as inputs to hierarchies of different uses, whether it's supervisory or accounting validation or, you know, counterparty credit risk management or market risk management. Those are all obvious extensions of this data, but if we think about solving all of those in a single implementation, we're back to boiling the ocean. And the key here is to agree on the "what," which I think we're saying let's not focus solely on the term "UCI" but extend, look at the broader Dodd-Frank legislation and the legislation being discussed in other major jurisdictions and say is
there a way to come up with a common identifier for parties that could be utilized to meet the requirements of each of these rules such that don't end up having to build a solution for UCI and a database and a solution in LEI for another database and a solution what the SEC needs and another database -- and that's before we've left the North American post.

So, I think, Allan, your point is valid. I think the key is making sure that we don't try to scope the solution to this project to be so broad that we try to solve every one of those implementations in a single solution.

MR. TAYLOR: I hope it's clear from the proposed rule -- we want the UCI, which is, you know, our sort of narrow mandate, to be designed in a way that it can become the broader LEI and that it can serve all of those regulatory purposes that Arthur was talking about, not just the ones that are the mandate of the CFTC but, for instance, prudential and systemic risk supervision. So, all of those purposes would need
to be taken into account, even as we design the first step avoiding boiling the ocean by just the UCI. We want it to be such that it doesn't create what needs to come later -- if that makes sense.

MR. SULLIVAN: I think I agree. I think the issue -- we might spend some time looking at it from both directions -- which is identify the legal entity, define that term, build a decision where UCI could be a special-use case of that data, right? And then other hierarchies are going to use that in other ways. But I think it was clear to me in reading in the proposal that that was the goal, so.

MS. LEONOVA: It looks like everybody is tired and undernourished and needs lunch.

(Recess)

MS. LEONOVA: Now we proceed to Panel 4, Unique Product Identification, UPI, disclaimer. All persons had the passionate desire to switch from Panel 5 to Panel 4 and we are happy to accommodate the switch.

Questions have been distributed prior to
that and I guess we need to give a small background to begin with our marvelous rule about what we are taking about. As a concept, we need product identifiers is geared mostly to boards specifying their underling nature of the swap. We tend to think that it's going to be somewhat different from equity credit type instruments and commodity type instruments and we are willing to differentiate those classifications as we feel appropriate, but as we go forward, let's start from the first question. What is the most effective and efficient system for product identification for the purpose of data aggregation keeping in mind those underlying asset class differences?

MR. ARORA: Let me start. I'm Kulbir Arora from Goldman Sachs. First of all, thank you to the Commission for having us here. I think, Irina, you hit the heart of the problem in the sense that if we are not clear about the purposes and the usage of these identifiers, things are going to become very complicated. Aggregation
across various dimensions is obviously one of the use cases. I think price transparency is another use case. The CFTC has started a very detailed and prescriptive product topology, attributes such as contract type, subcontract type, asset classes, option types and so on, and I think those are very necessary and critical attributes to distinguish. But I think we need to understand that one of the key features of this marketplace in the last several decades is the very dynamic, evolutionary nature of this market. There is a lot of product innovation that happens.

One of our worries is that if this product topology is over prescriptive and owned as part of the rules, then constantly upgrading it or changing it will be very burdensome and probably would require rules rewriting. I think a better way to own this would be to bring regulators and industry participants to the table under the auspices of organizations such as ISDA, more appropriate here than SIFMA, because that way the maintenance and constant evolution could be part
and parcel of -- there are a range of value sets for each of these attributes that a good starting point has already been achieved but the constant evolution that's going to happen is one of the issues.

Irina mentioned the distinction between credit type instruments where some standardization in the marketplace can happen and one could conceive a CUSIP style identifier that references a very standard FpML as an example description, but for the large other part of the market, interest rate products for example where every deal arguably is a product unto itself, I think referencing the product topology in the data requirements is the unique identification part of it. The question here is that when you regulators talk about aggregation, along with dimensions are you intending to aggregate based on the purposes of the rules? And some of the attributes allow for that aggregation to happen across asset classes or underlying assets for example, but I think that clarity is very necessary today. Thank
you.

MR. HAASE: I'm Ken Haase and I'm with the NFA, and also we would like to thank the Commission for inviting us here. I really will agree with very much of what you have just said. We do need some definition, but it can't be terribly tight at this point. You have to allow for the future of the unknown and that's always a concern with any type of system data field or anything you're trying to put out. In this area in particular I think it's quite different than futures simply due to the amount of underlyings you could have and some of the very, very unique types of products you could be trying to identify and that may not just fit into a small defined field. This may end up being almost descriptive in some instances.

MR. CUTINHO: This is Sunil from the CME Group or CME Clearinghouse. I don't want to repeat what has been said before but I agree with some and most of the comments made. Over-the-counter derivatives are not as specific or
standard as some of the commodity derivatives that
are trading on exchanges. But one of the things
I'd like to add is it's very important that we
understand the need and the aggregation and based
on that we could come up with an algorithm.
Rather than have an entity designated to create
these identifiers, our preference would be to work
with industry and come up with an open,
transparency algorithm so that these identifiers
can be generated in a very deterministic manner.

I did hear the comment of descriptive.
We support that idea because unlike the
counterparty identifier where you cannot be
descriptive to maintain anonymity, here in this
case it's a product identifier so that based on
its need we presume it's reporting and real-time
price dissemination so that descriptive is of the
essence here and the more descriptive the better.

MS. DREW: This is Eleanor Drew from
Citi. I'm in charge of the Master Data Management
Program, both the technology implementation and
the operations space. We're very supportive of
industry standardization. In my particular role in the firm I've been waiting for this for 10 years because my life is miserable trying to string together all these different identifiers.

One point I wanted to bring up is when you look at security data across cash and derivatives, there is a life cycle associated to it so that when we look at data management on this there is entity, there is issuer, there is product specific data and there are corporations actions. In addition to that, there are hierarchies associated with those domains so that it is very important that we take a step back and model it so that we could fully understand the life cycle of the instruments through the different flows to make sure when we design something we do it once and not continue to go back and back and redesign because we're very -- on our design so that that is one of the points. I very appreciate you inviting us to this panel.

MR. CHIDSEY: Since it seems like we're going around, this is Ed Chidsey from Markit
Group. I think it comes back to what some of the others were saying in terms of what problem are we trying to solve, what use case are we trying to solve, and if it comes as an example of understanding what instrument is referenced for a given price, there are going to be different data fields that are required for a particular instrument or asset class. So if you take credit default swaps as an example, you really need reference entity tier of debt which today is typically derived from the reference obligation, maturity date, clause and currency so that there are five fields that are required to understand what instrument you're reference in a credit default swap transaction that would be attached to a given price and each of those fields could potentially be identified through some sort of an alphanumeric identification scheme. Tying all of those together is something that could be considered, but then when you look at another instrument whether it's interest rate swaps or other derivatives, there are going to be a
different set of fields that are required in order to understand that instrument you're describing. So I think it's important to decompose it to a point where you understand the fields that you need to identify, the instrument that you want to describe for a particular purpose and then think about what standards can be applied to each of those fields. Some of those are very common, maturity date, currency, you can have standards for that. Others may be very asset class specific and we'll need to think about what those standards could be.

MR. LITKE: Adam Litke from Bloomberg. I'd like to thank you for having me here and I'd like to echo what everyone else said, so I won't repeat it.

I think from what I've read of the rule, you've talked about using the identifiers to set limits but you're not actually collecting any risk information with that and derivatives aren't really like futures contracts. It is possible using other parts of the rule where you're
requiring the confirm data to then go and compute
risk information, but since an over-the-counter
derivative can have multiple legs and multiple
underlyings, I think the purpose in the rule the
way it's written now it's a little confusing. I
think if we're talking about having enough
identifiers so that the Commission and other
regulators are able to see the risk of the deal
and say there is so much risk in the market to
these products, then you're talking about within
the context of the confirms having for each field
a specified bit of information. In a swap it's
not even obvious. You might say I can do a plain
vanilla interest rate swap. It's cash. There's
cash and there's the fixing rate which may be
LIBOR. Do I identify that as a single asset or do
I identify that as each leg, one leg is cash in
dollars and the other leg is a series of LIBOR
fixings and dollars? I would argue you'd probably
want to go to the very atomic level of the second
of you'll end up extremely confused because cash
on a swap and cash on an interest rate swap would
no longer be the same thing just to give a simple example. So I think the discussion in the rule is in the wrong place, but if you moved it over to the confirm descriptor then I think there's a very good discussion to be had and the main thing is to be as atomic as possible to say for each individual think and then you get a lot of consensus where everyone agrees on what all the fixings are for example.

MR. TUPPER: My name is Bruce Tupper and I work for the Intercontinental Exchange or ICE and I manage the Commodities Confirmation and Warehouse. To follow-up on some of the comments, I think it's become clear that there are solutions in the market by asset class. There are many services, whether they be warehousing compression, confirmations and each of them have to come up with their own scheme in order to capture the concept of a product or trade type. I do agree with earlier comments to try and understand that's the purpose because we, or at least I can speak for Intercontinental, create products for a very
specific reason as an exchange and as a trade

warehouse but in order to trade the correct

products for the Commission, for example, if

you're trying to aggregate up exposure on a

particular index, that may be a different way than

in some of these products. We say at least in the

commodity space, when we were creating our product

schemes we looked toward our customers' trade

capture systems and the trade capture systems that

were offered by the vendors to come up a scheme

that people could collectively write to and adopt,

but we did that for a specific purpose. So I

think probably some clarity on what you're trying
to do with the products as far as from the

Commission's perspective would help us.

I do agree that once you have that and

there's a working group, that can be solved. I do
agree that we should probably look at this from

more of an asset class perspective because I think

each asset class has its own ways of doing it.

Like I mentioned earlier, CDS has a certain way

and commodities may be different and I'm sure it's
different in other asset classes so that that is probably a consideration for the Commission.

MR. PERSSON: I'm Ola Persson from FINRA TRACE. I'd like to echo what Sunil mentioned on the dissemination side and the investor protection issue in terms of -- either can understand what they're looking at based on the identify that came out or that sufficient descriptive information is made available together with that record so that they understand how to interpret that data. The other thing I'd like to tie back to with what you mentioned that we are obviously in the process of expanding TRACE to cover securitized products at this point and we're going through some of these issues because there are a fair amount of securities that trade assigned CUSIP and clearly a joint industry regulatory solution is a very good way to go because whatever as a regulator we come up will have to work for everybody anyway so that sitting down at the table is very, very helpful.

MR. ARORA: I think that the subset of products that is highly standardized like the ones
that trace on ICE for example, an identifier that
if an canonical representation of standardized
products which is a subset of the broader market,
I think that probably is not a controversial topic
here. It's the rest.

I want to comment on the verbal
description comments that Sunil and Ken already
referenced. If you look at the C.F.R. Part 43
that CFTC has put up and I've gone through it in
gory detail, I think it's a very good starting
point. There is a very detailed set of attributes
with possible values for example as I said earlier
what a contract type is, what a subcontract type
is, what an asset class is, what the underlying
asset is, there is a topology or tree-based
topology that is a very good starting point for
this and I think that that would be a description
for the nonstandardized products part of the
market and it's almost descriptive because it
pretty much lays out the hierarchy. I'll
underscore that the main point I'm talking about
is that this topology is going to be an organic,
living topology that's going to innovate and change so that the ownership of that and how you delink it from the rules themselves is a key point.

MS. LEONOVA: What is an efficient way to accommodate the innovation of those instruments?

MR. ARORA: I think make the industry as a whole responsible to maintain that in conjunction with the regulators because the regulators will ultimately keep specifying purposes. Purposes themselves may change over time, but I think that way a consortium of industry participants co-owning that topology would probably make it easier to maintain that prescriptive topology from just one of the players in the marketplace.

MR. CHIDSEY: Again I think looking at is then what's been done with FpML is a standard way to describe financial transactions across a variety of asset classes and instrument types is a good example and when a new instrument needs to be
created or added there is a working group that
opines on that and ultimately it gets defined via
FpML and the necessary fields to describe that
particular transaction or instrument are utilized
so that a similar sort of model can be used going
forward to manage this topology.

MR. LITKE: I think I agree for the vast
majority of contracts that FpML is good. I think
for exotics you have to be a little more careful
and you need some sort of scripting language.
There are vendors that sell them. There is also
one of your fellow regulators. The SEC has
proposed for example for securitizations using
Python code that's made available. You'd still
have to have standards for it because this would
be a different than their use so you'd have to
standardize what the terms meant, but you need
something like that in order to accommodate
innovation. The vast majority of transactions
will still be done in the standardized format,
let's say something like FpML and you could have
some rule that said if some class got over a
certain size there would be a way to recognize these are all sort of the same, create an extra FpML class and then to come back to the industry, but without that you're going to standardize everything which sort of goes against what the whole OTC market is about.

MR. ARORA: May I comment on that? I think on the highly exotic part of the market, the one way as you said is to essentially have Python code level standardization. The potential problem there would be how much transparency to the players in the market want to give each other to what may be proprietary stuff and that speaks to competitiveness. I think one of the approaches that within the FpML groups, the various participants have discussed for the highly exotic market is again going back to what ultimately will be the purpose of these descriptions for the marketplace. It may be possible, I'm putting it out there as an idea, to have the notion of a generic description which essentially captures just the bare minimum that may be sufficient for
the regulatory purposes and a full-blown
description is right at the outset taken as not a
possible thing to do in a highly dynamic way.
Internally we have attempted that and I think we
have succeeded with it pretty well and we're
pretty happy with having this subset and we call
it the generic exotic instrument. Just a thought.
MR. TUPPER: I'd like to follow-on on
that point. I do want to caution the Commission
against prescribing a particular messaging
protocol. For example, FpML has had a lot of
adoption in some asset classes but probably not so
much in energies. To follow-up though, I do agree
with the idea of having a more generic reference.
For example, within ISDA there is the Commodity
Definitions Working Group and their purpose is to
update these indexes that are used in the various
swap transactions. Ideally they can be very
complicated and exotic but many of them always tie
back to some kind of description or particular
index regardless of the asset class.

We spend a lot of time working with that
group in particular because by having those kind
of generic codes that are really the building
blocks of most swaps and having clarity with those
it allows you to process a lot more transactions.
I don't want us to confuse having those building
blocks versus a very robust messaging protocol in
order to communicate the trades. When you start
getting into exotics and processing them, it comes
back to what is the Commission's goal. Are you
trying to find a particular exposure for an index?
Even though it's an exotic trade, I'm sure that
this group could probably easily do that for you
so that it could come back to that. Specifically
for commodities, you could use the example of the
Commodity Reference Price Index Working Group.
They regularly update that and that's something
that you could look at for product definitions.

MR. CUTINHO: I don't often agree with
my colleague, but this time on the panel I do
agree with him that we cannot prescribe a specific
language. As an example, as a business we support
multiple standards. Some are prevalent in the
securities market, some are prevalent in the
standardized futures market, some are prevalent in
the over-the-counter markets and it's less
disruptive to market participants across the
board. If I were not a technologist I would have
thought you guys are talking about snakes.
Python?

To emphasize one point, I think we talk
about what is the desired use of this product
identifier? To put it another way, you can't
expect the product identifier to be everything.
You can't expect it to be very unique capturing
all the details of the trade. You can't expect it
to be at the same time very generic. So we have
to choose between the two. When the Commission
says specify the underlying nature of the swap,
what do we really mean by that?

MS. LEONOVA: I guess it's time to
narrow down what we are talking about. If we are
trying to achieve too big a goal of capturing the
exposure metrics and at the same time trying to
control the speculative position limit mechanism,
do we follow the same system of product
identification or do we have to go in different
ways?

MR. LITKE: I think unfortunately they're different. I think as soon as you get to the speculative position limit you need to capture risk information. Let's say you knew it was something like LIBORs or you're going to do it in future equivalents, the mere fact that you have a swap or various kinds of options, just in a simple option the delta changes every day depending on the time to maturity and the price. As you get into more exotic instruments it can vary quite wildly. You could capture that as a risk field, but that's a computed number that would have to get reported every day and what gets reported at the time of trade is not particularly relevant. You might want to specify all of the risk fields that a transaction needs to be mapped to, but even that depends on the underlying model you're using so that you're asking for somebody to report something that's really something unfortunately
the Commission is going to have to do for itself which is decide how they want to measure the risk on the transaction.

MR. CUTINHO: Since I asked the question, I have to respond. I echo Adam's point. It's not just the counterparty information, when we talk about exposure we need to understand the specifics. Exposure to what and position limits? Let's say, I'll give you an example, if you're looking at the very granular level and you say that I want to just look at limits on 1-year -- that means very little because you can have a party trade very little on the short end of the curve but take greater exposure to the middle part of the curve or the end part of the curve. In terms of exposure and position limits, what we are trying to understand is what is the overall goal. We are starting from the premise that it is systemic risk to understand if that a single entity has undue exposure or very large exposure to a certain market or a certain part of the market and the effect that the economy can have on
that single counterparty and then how it translates to the rest of the market. If that's the case, maybe we need to have a discussion as an industry with our participants around here as to what exactly is the Commission looking at and perhaps we can come up with some of the principles as far as creating the product identification before we get into the details of how we should generate one.

MS. LEONOVA: Going to levels of aggregation of data based on the product identifications and we don't know, where should at least we cut the line off? What levels are there and what is the appropriate level that we should be targeting?

MR. ARORA: It would help if you would articulate the purposes to which this aggregation will be used. That will help because that's a very multidimensional problem.

MS. LEONOVA: Thank you, Kulbir. Our immediate market oversight goal again is speculative position limits so that when we are
talking about that aspect of oversight, we are going back to the futures equivalents and some type of conversion. That's one problem for us, how we convert something in futures equivalents. The second question is systemic risk exposure. When we are trying to capture the system and decrease exposure, what should we be focusing in on? Is it overall net asset value or whether we should build in some kind of curve or what do you think should be the focus?

MR. LITKE: I think for the position limits which fortunately I guess primarily you're changed with doing that on the agricultural commodities to avoid people cornering the market.

MS. LEONOVA: We used to be.

MR. LITKE: But I don't think there's a requirement to have position limits on for example interest rates for a bank. I thought under Dodd-Frank the banks were specifically exempt in terms of proprietary trading, that interest rate proprietary trading was still allowed.

MS. LEONOVA: Let's not go into the
exemptions but assume that we are trying to cover everything.

MR. LITKE: If you're trying to cover everything then you're going to have to for each asset class define what you mean by risk. In commodities it's fairly easy because you're in some sense worried about how much can a speculator corner the market. In interest rates, nobody is going to corner the market and what you're really concerned about therefore is how much can they make or lose and it becomes more of a prudential supervision issue than a market control issue. For that you're back to defining how do I want to measure risk. For systemic risk, you're interested very much in stress tests in the sense that you've got to have some series of stress tests around people's portfolios and see how much margin is going back and forth. But it's ultimately it's model driven so capturing fields is not the issue, it's capturing confirm data in a standardized way so that you can apply models to that confirm data and compute the risk.
Effectively what you're saying is you want to be a super-clearinghouse. You want to do the same thing that a clearinghouse does but you want to do it across all the clearinghouses so you can watch all the margins moving through the system and all the clearinghouses have to have their systems for modeling these things.

MR. CHIDSEY: One comment in thinking about it from a systemic risk of exposure perspective I think trying to tie it back to the product identifier question is that probably argues for a very segmented set of identifiers across again the different fields to identify a particular instrument because ultimately you may want to look at risk from a number of different angles so that an identifier that collates a number of different fields across a number of different variables I don't believe will actually aid you in that goal. In fact, the more finite the description is the better off you'll be to be able to run scenarios and look at exposures across a variety of different attributes.
MS. DREW: From the identifier aspect of things, in us segregating the cash and derivative product identification process and registration, we should look at that and study of it across industry. As to the overall net aggregate exposure you're going to need across cash and derivatives. Us looking at it segmented just in the derivatives space and not being able to roll up, probably we need to look as a unit to see if that makes sense. If there is going to have to be some single entity, there's going to be one hierarchy tree. When you look at a company such as Lehman you're going to have to be able to fold all the positions into one, and not looking at it like that I think across asset class and having common asset categorizations, product classifications across both markets, that's where you're going to do your aggregation in the OFR and in your organization. So I think bringing the trade groups together across cash derivatives having a common taxonomy, having a common set of trade transaction specifications that go out all
the investment banks' doors is needed and that
common taxonomy is probably something not trivial
for us to put together.

Purely in the cash space, we don't have
a product identifier even though this is in the
most mature product. We look at ICE, we look at
CUSIP, we look at SEDOL, all fail providing for
the cash market how you look at a product. So
when we bring in the derivatives space we need to
know the underliers. We can't even tell you
should you put a SEDOL, should you put a CUSIP
depending on what asset you are so that this is a
real taxonomy modeling session that we have to
have everyone sit down as an industry and really
model this to talk about a life cycle and it's not
going to happen cheaply or quickly or else we'll
do it wrong and we'll have to be doing it again is
how I look at things.

MS. LEONOVA: How far is the industry in
developing the systems of classification or are
there any developments in the industry right now?

MS. DREW: Within my firm there are
different varieties of asset classification so
that each vendor or supplier supplies their own
taxonomy. As a community we need to have a
high-level matrix of what these categorizations
should be and that's going to be a lot of heated
debate and I'm sure others could add to that.

MR. ARORA: Arguably FpML is the first
serious attempt at standardization. Keeping aside
imposing a particular protocol, the fact that
instead of looking at FpML as a protocol, if you
look at it as an agreement on what set of
attributes describes a particular kind of
derivative, it's as far as I'm aware the first
serious attempt across players. You're right,
Eleanor, that each one of us has internal systems,
but the need to bring it all together is more
recent.

MR. TAYLOR: Let me ask, when I was
teaching I used to tell my students there is no
such thing as a dumb question. I might be about
to disprove the rule. I'm hearing people say lots
of things about the need for the important level
of granularity in this area and I feel moved to ask you all, the concept here I guess is that each swap that's reported to a swap data repository is going to carry a single product identifier. Is that the right way to do this? Is it possible? Will it work given the multifarious nature of how many products there are, millions if you want to look at it that way in some asset classes?

MR. TUPPER: This is Bruce from ICE. There's a subset that you could definitely achieve what you're saying, but it's going to be difficult and Kulbir has definitely touched upon this, we've been taking to a lot of our customers about is how do you capture exotics when that comes up? As to your question, it's obviously your interest is exposure and stress testing. With exotics by nature there may not be a lot of trade records or submissions to the future SDR, however, there is usually very high notional value to those transactions and that's what you're after. The trick is going to be I think you can get the common trades and I would say many of those will
be in process today, but with trying to get your arms around how you're going to classify exotic transactions and do that in a manner where you get enough information so you can fall through on your stress tests and exposures is going to be difficult. That's the hard part.

MR. LITKE: One thing you might have for things that have become standardized have standardized terms and then I think you mentioned in the rule having something called multiasset and you could also have something called exotic and as long as the exotics are below a certain percentage of what gets traded, then you wouldn't worry too much and if it gets above that percentage then you have and go into a deep drive and ask is there a new standardized name we have to add, but there would have to be a process there. It won't give you risk reporting, but it will give you information about volumes in the marketplace which I think is useful information.

MR. TAYLOR: Following right on from that, if we're going to make a system that says we
have Buckets A, B, C and D and however many and
then we have a bucket called exotic where we
haven't classified it, where are the buckets that
we can classify and has somebody done the
classification system at least for them that we
ought to be looking to?

MR. LITKE: Everybody has done them and
they're all different. You even acknowledge that
in the rule where you talk about people talking
about whether cross-currency swaps should be
considered a foreign exchange product or a rate
product. In fact, in most concerns they're
considered both. The FX Desk considers them to be
a foreign exchange product and the Swap Desk
considers them to be an interest rate product and
every firm has a single maturity line usually that
they've fought over for many years where one
business gets to trade them as the market maker
and the other one gets to use it as a hedger so
that they're called different things once you get
inside that line. We all have them but there
isn't a standard.
MR. ARORA: David, isn't the heart of your question if the exotic bucket has numbers that worry regulators that that's when it becomes standardization? I think one of the ways linking it back to my point about generic, if volumes however we define them because it's not just the number of trades, it could be on a particular dimension be it notional exposure or risk or whatever, where the risk is "worrisome" then an attempt should be made it define it into a standardized product because the volumes have reached that level of threshold. I think up until that point -- you've alluded to there is no such thing as a dumb question, I have an analogous thing. Whenever you make a taxonomy or a classification there always has to be what's called the miscellaneous category or the garbage category so you just can't figure it out. And I think some kind of a process, I echo Adam's point, has to be agreed upon to keep changing this topology or this classification.

MR. TAYLOR: A follow-on question to
that as well, would it make sense to approach UPIs separately by asset class or not? Are there asset classes where it's easier to do this or where it could be done more quickly? Are there asset classes where we ought to allow more time for it? Is distinguishing by asset class something we ought to do?

MR. CHIDSEY: I think if the fundamental premise is a requirement that's around the taxonomy and defining that taxonomy, I think logically to make any headway it's going to have to be by asset class because again there are distinguishing characteristics by asset class. So I think that drives the need to divide the discussions and decisions up by asset class and then from there see if and how a UPI could then be applied to each asset class.

MR. TUPPER: I agree. I think there is probably some guidance or some commonality at a very high level for the Commission's benefit you could prescribe some type of way. I know in the proposed rules you did where you were trying to
put in an asset class identifier as part of the
code and you could begin there, but there are
definitely a lot of unique attributes to each
asset class and I think in order to have people
accept potential unique product identifiers you're
going to want to look to the existing systems and
how they're doing and if you can work around that
you'll gain an adoption rate that participants are
going to be able to submit you the data and the
way data is arranged, it is different by asset
class. That's just the nature of it.

MS. DREW: I think the way that you roll
out could be by asset class, but as a system
designer when I look to build systems, what I like
to do is gather all artifacts and create
relationships in my modeling as well as my domain
values and my taxonomy and then once I have it
modeled then I would roll it out on an asset class
basis. Just the thought of the entity and how it
applies to the cash, how it applies to the
derivative and the action, we have to look at
solving that problem using that ecosystem. If we
segment it, we'll do it really good once for one asset class and the model will completely fall apart when we look at the next asset class. Based on the experience of building a consolidated cash and derivatives environment, I made a lot of mistakes in my past by just doing it segment by segment only to have to redo it. So I would approach it that way as a system builder.

MR. HAASE: This is Ken from NFA. I would agree exactly with Eleanor. You really have to at the whole thing. You can roll them out separately but they really have to work with each other. Going back to one other point as far as aggregation and things coming up and what the regulator might want to use the data for. The other question I guess I would ask the Commission is do they view themselves then as the endpoint or is this data being passed up even further to other agencies where they may be doing combinations so that any type of standards or anything that you're setting up obviously has to work with them if there's a place to bring it all up to one place on
MR. TAYLOR: I'm thinking of a question and I was trying to think how to put it and I may put it badly. I think I've heard probably several of you suggest that it would be a good idea for the industry to be involved in defining this taxonomy and that there be some mechanism for allowing for future development in that and not setting it in stone in the rule. It's always a goal for a regulatory not to have to amend rules and I'm sitting here thinking on February 7 we have to go behind a curtain and we can't talk to you guys anymore and we have to put something in the rule. What sort of mechanism might it be useful to establish for industry and regulator cooperation on defining and maintaining and evolving a taxonomy over time? In other words, what could we say in the rule that isn't going to have to be amended later that sets up a mechanism that can do those things? Did I make sense with that?

MR. ARORA: Very much. That goes to the
heart of one of my points. I'm not a lawyer and I
don't know how to say this, but I think a
professional industry organization whose purpose
is precisely cross-industry participant
standardization with I think the regulators being
at the table, if somehow the rules could reference
such an arrangement where the ownership of to be
specific the part of the topology is held and if
the rule could reference a mandate, or what should
I say, a demand to abide by that topology for
every person in the industry, that might be one
way. It's sort of a level of indirection if you
will, but it seems to me how that's wordsmithed is
your expertise, but I think that may be one
starting point.

MR. TAYLOR: I'm going to put Ken on the
spot. I know if people here are looking for a
body like that that could hold this thing, NFA
will cross people's minds. Does that sound
conceivable?

MR. HAASE: I'll give a good party
answer to that and say that just about anything is
conceivable, but it's up to the board of directors at NFA to make that final decision.

MS. LEONOVA: I want to go back to multiasset classes and mixed swaps. What is an effective system to classify multilayered things? Should it follow the same system for any product ID or -- to have one identifier and break it down by components?

MR. LITKE: I think if you move the product identifier from the trade level to the leg level you would carry the vast majority of multiasset trades. That would just leave out things like basket options. But if you put it down at the leg level then you effectively say this leg is this type of product, this leg is that type of product and that would get you a long way because then a trade is just a portfolio of those legs. If I trade an option on three stocks or even worse on one stock, one commodity and one foreign exchange, there is no way to really handle it because it's just going to come in as multi.

MS. LEONOVA: It doesn't really help us
in a way that if we accept the fact that we have multiple underliers, what are you doing about speculative limit position aggregation? Do we double aggregate them or do we single aggregate them? How do you handle it?

MR. LITKE: You can't aggregate that way. That gets back to my earlier comment about risk based. Ultimately for things that go through a clearinghouse, the clearinghouse is not using a standardized formula. I don't know if our friends from DTCC are still here, but for example if you look at SPAN margining, there's a formula but behind it there are models and they change the numbers when the models change and if you don't have a risk-based system for those things there's no way to do a standardized formula. In many of those transactions for example there is something called the gearing factor so that I can have an option on 5 times X or I can have five options on X and economically they're the same thing, but if you did your speculative limit without a model you would think they were two completely different
trades. So if you really want to have speculate
limits, you're going to have to build some sort of
risk-based system for all of those things and
whether that means requiring people to submit
models to you or having your own models, that's
going to be up to the Commission but you can't do
it in a simplified way and you can't just trust
firms to report their numbers because of course
every firm has its own models.

MR. CUTINHO: Adam, I'm going to
disappoint you. It's not the DTCC who is going to
help with this, but it will be the CME. So you're
right that when we look at risk we don't look at
product identifiers. It's across products so that
we look at it on a portfolio basis.

MR. TUPPER: Just to try to expand on
Adam's description, when we take in data, we try
to take in data and break it down into its
simplest parts and then those models are going to
do what they need to do. So from the Commission's
perspective, I think if you're going to try to
tackle this, what you're looking to do is create a
model for whatever purpose, you need those inputs
and you need them in their smallest parts and as
clean as possible and then you're going to develop
whatever models around those inputs to get the
reports that you need. I hope that makes sense.

To summarize, whenever we're taking in
data we always break things down to a leg level or
individual reference price level and customers
always report exposures based on those particular
legs on that reference in the amount of notional
dollars they have on that whether they're paying
and receiving and then we pass that trade data on
to various systems that do different things with
that trade record.

MS. LEONOVA: So it should be called not
unique product identifier but unique model
identifier?

MR. LITKE: No. The model is your
model. You could change your model. One day you
might decide that you have the best model in the
world for this product and a year later you've
come up with an improvement on the model so that
you would change that. So that's not a unique
identifier per se, it's whatever the Commission
decides to use. What you need is enough
information in the confirm record that is
submitted by the participants to be able to
reconstruct the trade so you can take that trade
and put it into your model.

MS. LEONOVA: This model is going to be
asset class specific and is going to identify all
the legs that will allow to capture the exposure
if you link it back to the confirm?

MR. LITKE: There is a data model and
there is an analytical model to price it and then
there's a risk model that has to run all the data
models so that there are three different models
there. Only one of them is the data which is the
data model for the confirm. The other two are
really analytical models.

MR. TUPPER: But there are sources out
there for you to get the individual pieces. With
CDS obviously there's Project RED, on commodities
there are commodity price definitions which are
done by ISDA so that there are places for you to
create those if you're thinking of these
individual inputs that are out there that are
listed. It's what you're going to do with them
afterwards that's really not a product.

MR. CHIDSEY: Another way to look at it
is there may be an opportunity for unique
identifiers almost at the field level and again
for certain fields within a taxonomy for a
particular instrument it may make sense to have
identifiers as a way to ensure that there is
consistency and standardization for that
particular field so that it could actually be
several different types of identifiers for
different types of fields, but to try to roll off
of that together into some sort of aggregate
product identifier I think is complicated and I'm
not sure serves the purpose of what you're looking
for around risk and speculative position limits.

MS. LEONOVA: I'm trying to process the
information. It sounds like what you're saying is
that we have to come up with a set of some kind of
data fields that will be sufficient in order to in
general terms describe whatever something is going
to be is reflective of this product notion. Do I
understand it correctly?

MR. CHIDSEY: I think the short answer
is yes.

SPEAKER: The long answer is maybe.

MR. TAYLOR: I have a question passed to
me from one of your Data Recording and Reporting
Team members who's listening on the phone from New
York. We were talking earlier about the exotic
bucket among the other buckets and he prompts me
to ask, and it's a good question, how big do you
think that bucket is? We have some information
that suggests that vanilla is probably some high
percentage, 80 to 90 percent of all swaps and we
shouldn't be all that scared about the exotic
bucket, but what's your sense?

MR. LITKE: What we see in our pricing
service, it's probably less than 1 percent, but if
you want to know what somebody's risk is and you
have a exotic hedged by a vanilla, that could be
the unbalanced part of their book so that it's 99
percent of the work and 1 percent of the product.

MR. ARORA: I'd echo that.

MS. LEONOVA: I want to go back to the
product identifier question that we were
discussing before. You probably saw that we came
up with some kind of proposed minimum list of data
fields that we tried to describe this particular
product by asset class. Is it a feasible
approach? I shouldn't say feasible. Everything
is feasible. Is it a reasonable way to try to
capture these risk metrics that we were mentioning
and product classification metrics that we were
discussing?

MR. CUTINHO: For risk purposes, you
can't just look at that minimum set of
information. I think Adam was pointing out to
this panel many times that all the information in
the confirm is essential. That's important for
the analytics and it's important for risk as well.
I think Kulbir mentioned this before that it's a
great start to have a taxonomy and a structural
hierarchy. What is important is it has to be extendable and then I think we're going back to what is the original purpose. I think if the purpose is if you want to find out if a certain derivative is traded across execution venues and you want to see at what price it's traded across these venues, that has one level of requirements. If you are looking at a counterparty and you want to find their total risk exposure and then that is exactly your interest, then we are questioning I think to some extent how a product identifier would help you get there.

MS. LEONOVA: Are we talking about transactional level reporting versus portfolio level reporting here? It's not a question of particular data, it's a question of level of aggregation of data on the reporting entity level?

MR. CUTINHO: Yes. In essence embedded in my question is what is the purpose of the level of aggregation? If you're trying to find out there is a certain type of derivative that's traded across execution venues, if your objective
is to find out the price ranges where does it trade. What is the market? Where is it trading? Then that has a certain set of aggregation or a certain set of fields you would use. If you're looking at a portfolio basis, if you're looking at risk and if you're trying to identify risk, then when you look at a counterparty I think it was mentioned before that you have to look at the underlying positions, you have to look at the derivative positions, you have to look at their exotic positions, so we don't understand what a product identifier will help in that respect. You don't need to look at the product identifier. You look at the risk using the data within the transactions that is at your disposal.

MS. LEONOVA: It sounds like in your world our notion of product identifier is something like futures equivalents type measures of swaps that we are trying to aggregate for the speculative position limit but it's absolutely useless for the risk measure?

MR. LITKE: I think a futures equivalent
is a potentially useful risk measure. The problem
is it's a calculated field that is based on a
number of things that are different than the
description of the transaction. You have to make
some additional assumptions and know something
else about the market. It's useful, it's
sometimes necessary but it's almost never
sufficient.

MS. LEONOVA: I guess we have 15 minutes
for questions and answers. I see that the
audience is impatient with asking questions.

MR. TAYLOR: We couldn't get any
questions out of the audience before lunch.

MS. LEONOVA: Here is a microphone.

Would you mind?

MR. AXILROD: I just wanted to throw
something out and see what the panel thinks of it.

MR. TAYLOR: Please identify yourself
for the reporter.

MR. AXILROD: Peter Axilrod from DTCC.

In diving deeper into using these sorts of
identifiers for risk-management purposes or
risk-oversight purposes, I tend to share the
skepticism. It's a little like trying today to
manage monetary policy through the money supply.
Ten years ago or twenty years ago people thought
they knew what money was. Today it's very, very
hard to define so that it's not going to be a good
instrument. I think what you're hearing is that
product types, and one way to think of them is
sort of how ISDA master confirms are there? There
are a lot of them, and systems tend to divide up
the world that way. I don't know how many there
are in equity derivatives, there might be 50 or 60
now, credit derivatives have about 30 or 40,
commodities, they're not only ISDA, there are
elite product types and other product types and it
goes on and on. They're very useful. They're
used for as a sort of shorthand and when people
see them they know what type of instrument it is.
But I guess I would urge for risk purposes or
position limit purposes, you're going to have to
use a blunter instrument. You're going to have to
look at exposure to underlyings, what direction it
is and whether it's linear or not and add it up
and you're going to have to not be afraid of false
positives. You're going to have a lot of data in
front of you and if some of it indicates that
there is a problem and you ignore it because
you're worried that the data is incomplete, you're
going to be in trouble. What's wrong with having
sort of a rough approach which looks at underlying
exposures that is structured in such a way as to
give you some false positives but that just means
you've got a phone call or two to make?

MR. TAYLOR: Are there any reactions
from the panel?

MR. LITKE: I think it's fine if you're
trying to use it as a first step to look at risk.
I think the dealers and the market participants
might find it somewhat problematic if it were used
for hard position limits. So I think it really
depends on whether you're using it for a limit or
you're using it as an early warning signal.

MR. AXILROD: Early warning. I don't
know that hard position limits is something that
actually works given that it's almost impossible
to find a good measure of this so that it was
something that would be an early warning and cause
somebody to drop a dime.

MR. ARORA: I had the same concerns. If
it's going to start affecting workflow on a daily
basis, that would worry me. If it is more about
an indicative kind of sense to the regulators, I
suspect, Peter, there are going to be a lot of
follow-up phone calls in your example, sir.

MR. TAYLOR: Are there any other
questions from the audience? Clearly they know
everything they want to know. I have one. A lot
of you were here for all the panels this morning
and obviously I was and I listened all the way
through the discussion of unique counterparty
identifiers and there seems to be universal
agreement that we need them and everybody has a
fairly good idea of what at least they think they
ought to be and how they ought to work and the
debate is in the details. I listened to this
discussion and I'm not quite hearing it. How
important do you think it is that we have these identifiers? Am I wrong? Is the appetite for a UPI somehow less than for a UCI?

MR. ARORA: I think it's because of the complexity involved and that's why my initial point was what purpose might help. Maybe one way to look at it would be to do a volume analysis and I hasten to add that what we mean by volume needs to be defined. And maybe if we take it one step at a time, the more standardized products do make up the highest volume debt, it may not address one of your concerns about risk hiding somewhere in the system, but at the very least that's where something can be done. I think the worry that you hear if I can speak for all is around where the definitions are much more complex and much harder to come a consensus on.

MR. TAYLOR: You all are asking in a sense what for about these. One sort of obvious answer that occurs to me, and I thought maybe I should this because the existing universe of repositories and if I'm not overstepping to say
so, I think more the European concept about
repositories, tends to be that there might be one
repository in an asset class and so in this one
place you can see all at least for that universe
and that's not the Dodd-Frank concept. It
contemplates multiple repositories. The market
may end up dictating otherwise, but at least for
some period of time one of the purposes I guess of
a product identifier would be able simply to see
of this thing, what all is out there across all of
these repositories. That's kind of simple and
basic.

MR. CHIDSEY: Again I think what you're
hearing is the need for a common taxonomy or
common topology, there seems to be universal
agreement there. Then again within that there may
be an opportunity for identifiers, but the idea of
having a comprehensive product identifier at this
point, until you solve the common topology or
taxonomy, the common product identifier is
probably something that would need to be
considered later.
MS. LEONOVA: So that you're talking about an aggregate system of product description and now it's quasi-agreed is FpML a legal confirmation type but it may be a good way of doing it or maybe not a very good way of doing it but that's a change of direction that you think we should follow?

MR. LITKE: For capturing the information for risk purposes, yes. For answering the simpler question of what's here and what's there for volume studies, you could use a broader solution. And for price reporting where you want to see if there is market abuse, for the standardized trades you're going to get all of your information out of standardized names.

MR. TAYLOR: One follow-up question on the comment that we need the taxonomy first which I think makes sense to me, do you all think there is a way to come together in some consensus on a taxonomy on the timeline that the rule has which in rough terms at least would mean doing it this year?
MS. LEONOVA: I can narrow down a question. Is it possible to agree on a limited set of confirmations that are going to describe the whole universe of products? You can say maybe.

MR. ARORA: They're both tough questions and I'll be optimistic because the number of players in this marketplace is small and I think that's a positive, but the complexity is not and I think that's the negative. It's an aggressive timetable.

MR. TAYLOR: If more time than that were needed, what do you think it is? Rules can be structured for things out there further, but too much further won't sit well.

MS. DREW: I think the working groups that are participating in the LEI conversation, some of those folks have been in discussion on the on the common product ID for the last 10 years and nothing happened. Realistically I think looking at what's going on in those working groups and evaluating after a month or so after they have
some straw man or hear the finite set of fields we need to get agreement on and then readjusting the July date accordingly, but you have to sit down and model and you have to sit down and not rush this because if we rush it we'll have to do it again. The working group that's in place right now I think is very effective. All the right players are at the table. My advice would be give it a month, come back and then set an appropriate time limit once the modeling is done.

MS. LEONOVA: Does anybody have good news?

MR. TUPPER: It's a rule of thumb typically is a product is standardized enough that a clearinghouse is going to accept it, then there's the first set. If you're looking for a set of trades, cleared swaps, you're at a point where all the data values are pretty standardized, people agree, clearinghouses are clearing on it, there's your first set. Once you leave that product set, each traunch of products depending on how complicated they and you've heard a lot about
the exotics, it's how hard you want to work. The last 1 percent is 99-percent of the work. I agree with Adam wholeheartedly on that. You could spend a lot of time on the exotics which we have discussed at length. But if you're looking to put timelines, there is a lot of mention of reporting cleared swaps and that would be a great first start. And then maybe adding a concept into the rules with the exotics, and then you're going to have some products that are kind of in the middle.

I do think when you prescribe rules you do need to provision whatever standardization body is going to be tasked by asset class to do this work. The industry will invent products quickly. I think everybody here has probably been told I have the greatest project. You need to list it on your system. You do that because you're a provider of central services. And then you have this miscellaneous bucket and out of that bucket some things do make it but a lot of them don't, but you do need to allow that innovation in the market because there will be times where you're
going to have to amend and list new products as
they come up and I'd hate to see the rules be so
prescriptive that it wouldn't allow windows for
these updates.

MS. LEONOVA: I guess it's time to call
it a day. We are done with this panel. Thank you
very much for making the trip to Washington, D.C.
and talking to us and we will see you in 15
minutes.

(Recess)

MR. TAYLOR: So would the people for
Panel 5 come up and take their seats, and bring
your name tag with you, if you have it. Are the
rest of the Panel 5 folks here? We're going to go
ahead with that, and then we'll take our break
after that. It makes the afternoon too long if we
do it now.

(Pause)

MR. TAYLOR: We're missing a couple of
folks. Let's see -- Arthur and Ola.

MR. MAGNUS: Arthur's here.

MR. TAYLOR: Oh. Oh, hello. Right
under my nose. We're missing Ola.

MS. LEONOVA: No, no. Ola is going --

Ola made a switch.

MR. TAYLOR: Okay.

MS. LEONOVA: Okay, sorry about that.

So now we are going into our next panel.

Hopefully it will be not as controversial as the previous one. Now we are talking about Unique Swap Identification, or Unique Transaction Type Identification -- and to give a brief explanation of why we use this terminology. We discovered that industry has so many interpretations of what a "transaction" or "deal" is, that we ended up calling it just "swap." So there is no hidden meaning here. The underlying notion of these identifiers to keep track of a transaction, and we understand that everybody does it one form or another. When it comes to the unique ID for swaps in our world, we understand that we're going to have to deal with some system of compressions, (inaudible) that is kind of dilute. So it's unique.
So by this -- and it has to come up into something else that brings a notion of what is the most, again, efficient and effectiveness system of tracking, and so it's individual transactions that will accommodate regulatory needs and at the same time will fit into the current systems of counterparties. So, anyway, it has an (inaudible) how it should be done, where it should start, and how it should drip down into the SDR.

MR. TAYLOR: And --

MR. CUTHO: Sorry.

MR. TAYLOR: Go ahead.

MR. CUTHO: I beat you to it. Very quickly, I think I'm trying to understand the purpose or if -- just to rephrase -- you want to track the transaction and its life-cycle. We do have a concept today, when we receive swaps for clearing. It's called a "Platform Identifier," because we don't have execution facilities yet. We do think it will be helpful, but we think it should be linked to the execution venue, and should have some form of an intelligence to
prevent collisions.

If the purpose is just to track a transaction and its life-cycle, one way to -- I mean, it has to be unique, of course -- things to keep in mind are not all transactions are executed in execution venues. Some of them are voice-confirmed, or affirmed, on platforms. So, to the extent that these IDs are easily available, they have a very transparent algorithm, I think it will help -- and not just the clearinghouses, but it will help the regulators, as well.

MS. LEONOVA: Okay, so to expand it -- so, in case of centralized execution we are more or less confident that staff for the CM will be able to assign some kind of number. When we are talking about non-centrally-executed transaction, it goes to clearance, we would assume the clearinghouse going to assign the number when it's not going to clearance, or who is going to assign the number, or how will the flow be (inaudible). What are we talking about here.

MR. MAGNUS: So, if I may -- I'm Arthur
Magnus from JP Morgan -- I still think -- first, I do think there's a big difference between cleared and non-cleared, but even in the cleared environment, I think we need to be very -- pardon the pun -- clear on what we mean by "transaction."

Let me talk about the uncleared, and then I'll come back to the cleared one in a second. When we put on a position with a counterparty -- I'm just going to make an example. I do a trade with you, Irina, and it's $100 million transaction. I've now done it, it's an event, a new transaction.

At some later date, something may happen to that. It may move to a clearinghouse. Now, it moves to a clearinghouse -- and we'll say David's the clearinghouse -- is that a new transaction? Or is it the same transaction? But now the clearinghouse is sitting in the middle.

Now, if your expectation is -- and I saw David shaking his head, "No, it's not a new transaction" -- it does need a new identifier, though. Because my transaction with David, and
Irina's transaction with David are gone, and we've created a new transaction. And it has to be that way, because I can't report, in any way, shape or form, on my transaction with Irina any more, because I don't have the relationship with her. So we have a new transaction ID of some sort.

A different scenario is I have $100 million transaction with you that's bilateral, it stays bilateral. And then at some point I want to lower the risk to $75 million. I can do that two ways. In some markets, I would do an offsetting transaction -- a $25 million trade with you in the other direction -- and we'd have two transactions on the books. I have a $75 million position, but two transactions. In other markets, I might do a partial unwind -- unwind $25 million of that, which is an event on the same transaction.

What I'm trying to get to here is to say that we have to be very, very clear, and sit down and figure out what are the different U cases we're trying to solve for, so we can figure out what we are identifying, and which identifiers
need to live throughout their life, and which
don't.

We clearly have a view at JP Morgan that
if you're doing a compression, we in effect are
unwinding all the trades that are being compressed
and replacing them with a smaller number of new
trades -- which is fine, and the compression
utility can actually provide those new identifies,
but not clear if that's actually what the CFTC is
looking for, in terms of what they're trying to
find traceability of.

In the cleared environment, we're not
sure the concept of "transaction" is meaningful
over a period of time. Because, again, there's
reporting requirements to the swap data
repositories of a transactional nature throughout
the entire -- quote -- "life of the transaction."

Now, while many markets, we believe,
that will never lend themselves to a standardized
product -- and each individual transaction, which
is perfectly clearable because we can think about
the risks holistically are usable -- we are going
to be able to, in other products, or instruments,
be able to identify them singularly by a contract.

So if you think of the CDS Index market,
that's a pretty standardized contract. We could
compress that to a position, very similar to the
way futures work today. And we would not want to
have to continue to carry around, every day,
information about the events associated with that
transaction. We'd want to associate it with the
position. In other markets, where we can't get
that level of standardization, we're going to have
to do it at a transaction level.

So I just think one of the things we
need to do here, very practically, is get, again,
the market practitioners together, who understand
the different markets, outline what the different
use cases are, and then come up with what is it
you're trying to identify. Are you trying to
identify for, again, trace-type purposes, to
understand the transactional life-cycle over its
life to look for market manipulation or things
like that? Are you trying to understand what is
the systemic risks presented by the trades that
are on the books at a moment in time? Are you
trying to do both? Are there other things you're
trying to accomplish with understanding what all
these things are.

And once we understand that, we can
probably come up with a nomenclature, an
identification that would work for this. And if
you have the answers to some of those questions,
we might be able to help you now.

MS. LEONOVA: Okay, then let's start
from the simple solution. If you are focusing on
how to trail a particular trade from the moment of
execution until the moment of time in the future,
do you follow the swap transaction idea that is
mutating through the life-cycle events? Or we try
to track the original swap transaction?

MR. AXILROD: Can I take a shot at that
one? We've been doing that for a while. As
Arthur said, in some cases it's virtually
impossible. No one wants to take a bunch of
trades that have been compressed -- there are lot
of one-to-many, and many-into-one clearing
give-ups, prime-brokerage give-ups -- you know,
block executions with splits.
If you want -- if the requirement is
just to keep an audit history, then, really, as
long as the system that's doing that can relate
the new trades to the old trade -- so, for
instance we know which terminations are
compressions. We know when the compressions were
done, because we get them from a compression
provider. And we're getting to the point where we
know which new trades also came as a result of
that compression. Those are reported by the firm,
so it's not quite so clear at the moment. But
it's getting there.
Or do you report us new trades? No,
just the terminations. Yes. But as long as you
have that information, and you know what the links
are -- and particularly, know that these new
trades that were coming on were as a result of a
compression rather than some economic activity --
isn't that enough? You know, and as long as
there's the link somewhere -- these 10 trades link back to these two, or these two link back to these 10 through a compression -- wouldn't that be enough?

MR. PRITCHARD: I can say a few words here. This is Raf Pritchard from TriOptima. I think, you know, talking generally about these universal IDs, there's no controversy about the value or the justification or the motivation of what is being described here. And the rule-making goes into some lengths about the value of aggregating across different entities, across different transactions, and forcing limits, surveillance, et cetera. So I don't think there will be any controversy in these discussions about the value or the motivation of what is being described.

And also, in technical terms -- we've seen at the prior panels today -- there's no real controversy about the ability to create universal unique IDs. We start off with venues that generate these IDs, and we can combine those with,
you know, prefixes or suffixes for those venues,
and we can come to a universal scheme of unique
IDs. So that's not controversial, I think.

You know, what Peter and Arthur are
alluding to is the practicality and the
feasibility. I think Arthur made an excellent
point that, you know, what having these universal
swap identifiers implies is a certain uniformity
of behavior in the market that where a certain
scenarios arises -- and he very clearly enumerated
several good examples -- that everybody's going to
behave the same way. And that doesn't happen at
the moment. Participants in the OTC market do, by
and large, perform on their contracts, but they
don't necessarily record them in the same way.

And so somehow we're going to have to
come up with a rule book -- as Arthur said, a
prescription -- of what each scenario is, and how
to behave, in terms of do we create a new trade do
we retire an old trade and create a new one, like
Peter is talking about? Or do we create two? Or
what exactly happens?
And somebody has to write that rule book and maintain that rule book so that everybody can follow it. And that is where, I think, the controversy around this is going to come in.

And secondly, an issue is that, you know, there's a lot of infrastructure. Somebody earlier was talking about these identifiers are embedded in thousands of systems around the industry. And they are. And often, those party systems create records, you know, very early on, when the trade is agreed to. And so we'd have to feed back these unique trade identifiers into those systems. And that's a significant amount of rework. You know, when you design a software solution -- and that's what our business is, software solutions -- you design the data model first. And when you design the data model, you design the identifiers and keys first. And if you try to change the keys to the data models of thousands of systems, then that's, you know, digging up every street and avenue in the city to -- you know, nobody's arguing about the benefit
here. But it's really the amount of re-work
involved in universally applying them.

And so I think some of the solutions
Peter is talking about, about using what's there
at the moment and, you know, linking backwards and
forwards to identifiers, and using some of the,
you know, identification systems that are out
there and linking across them is going to give a
much more faster delivery of this benefit.

MR. TAYLOR: Does it help with that
particular issue -- you know, the re-working of
systems -- if the use of these USIs applies to new
swaps going forward after the implementation date,
but doesn't apply, in the same way, at least, to
what are going to get called "pre-enactment
swaps," or "transition swaps," the one between
July last year and the implementation date?

MR. PRITCHARD: I think that's -- just
quickly, it's going -- OTC swaps, one of the
things we've pointed out in our discussions here
is the rate of turnover in the market. We see 3.9
million live contracts in our rates repository,
but only 4,000 or 5,000 a day. And it's going to
take years and decades for that approach to get to
a place where everybody's got these unique swap
identifiers.

MR. TAYLOR: Okay.

MR. PRITCHARD: So this approach of
reusing and linking amongst the identifiers that
are there will deliver value. It may be a good
thing to do in the long term, but it's going to be
a long wait.

MR. MAGNUS: I would also just add to
that that the systems that, you know, the major
swap dealers use today, and other market
participants use today, whether you start using
these new identifiers on a particular date in the
future or say it applies retroactively is almost
immaterial. Because I have to make the changes to
the system in order to capture and record those
identifiers, and be able to pass them in every
single message that we have, among systems, in
order to fulfill the requirements that you're
trying to accomplish.
So once I can do that, we can probably very quickly come up with a way, in a relatively short amount of time -- it might take a year or two, but relatively short compared to the term of our derivatives book -- be able to go and get to identifiers that are for the uncleared derivative population.

MR. AXILROD: I guess I think you can't solve this problem by trying to map to lots of various different identifiers just because you then have no way of enforcing -- I lose my grip on how you do inventory control. In other words, unique identifiers, especially under a system where, you know, something's getting reported one place for public dissemination, and another place for regulatory reporting, you can have those out of sync very quickly, and no check on whether you're capturing everything, unless there are unique identifiers.

I do think the technological problem, though, is -- Raf is right, everybody -- these identifiers are essentially the key to everybody's
system. And maybe just adding two digits requires a rewrite of every single table in somebody's system.

So I think if they are being created from multiple sources -- say, for instance, the execution venues -- they ought to be standardized -- in other words, so that the people to whom these things are reported can deal with them. And, in a way, I would say that the SDRs, if they don't create them, at least should say, "Here's the format in which these identifiers have to be provided." And maybe if there's a prefix for other, for different execution venues, you know, for sure that prefix should not be made public, or the individual identifier should not be made public, because there's just not enough trading to -- if people know which platform it came from, they'll know who did it.

So, as long as these identifiers are private, or only for the regulators, that's okay. But you really have to make sure that the SDRs can handle all of this stuff once they're reported to
MR. WILLIAMS: If I might -- Jon Williams from Tradeweb. And, by the way, thank you very much for the opportunity to participate.

You know, I think one of the things, you know, as we look at our execution business currently, across a number of different asset classes, both cash and derivatives, you know, we feel very strongly that from a unique swap, or a unique transaction ID standpoint, there does need to be kind of a point of initiation. And that point of initiation is the point of execution.

Because I would think that, you know, contained within the notion of a transactional identifier is the concept of -- not to borrow from earlier panels -- but the counterparties involved in the transaction. And so the notion of trying to report enough of the details that encompass the physical transaction -- not just the details, the mechanics of the swap -- to do that at the point of the SDR, when actually the uniting of the counterparties and the components of the swap
happens at the point of execution, would be problematic from kind of a sequencing perspective.

One of the things that, you know, that we certainly do now -- again because, you know, we traffic across a number of different asset classes, with a large number of counterparties, and interact with a lot of, you know, other participants in the trade, like TTCC, like MarkitSERV -- is we certainly create a new transaction identifier. And it varies. There's a fair amount of, you know, homogeneity, in terms of the logic behind the construction of the identifiers, but each asset class has an appropriate number of characteristics that describe it. We then transmit those identifiers -- for example, to TTCC, and they respond in kind with whatever identifier they have created for that particular transaction, and we associate the two together, and are able to track them in lockstep with each other throughout the life-cycle of the trade.

You know, I guess one of the other
things, you know, from listening to some of the
other panels is, I think, the key is going to be,
obviously, a very -- and this is where there's
going to be a fairly, a need for a fairly
broad-based amount of cooperation across market
participants -- is a very kind of agreed upon, as
close to standardized as possible, methodology or
taxonomy for describing not just, you know, the
larger transaction but the pieces of the
transaction -- again, those unique counterparty
identifiers, and then ultimately those unique
product identifiers.

MR. CUTIHO: I just want to acknowledge,
and actually highlight one of Arthur's points
before.

It doesn't matter whether we're talking
about seasoned swaps, or things that are
bilateral, or swaps going forward. But if a
product is standardized, and if clearing is
provided on a positional basis, then there is no
ability for a clearinghouse to then report the
transaction identifier on an ongoing basis. So it
means nothing. It's just a net position at that
point in time.

CDS as a SNAK is a good example.

MR. MAGNUS: Then again, I do want to
cautions that many asset classes you will not be
able to do that. And so we just have to be very,
very careful when we use that terminology.

Again, I want to go back and -- there
are one or two other attributes I think are very
important. One is, if we have identifiers out
there, the identifiers itself should adhere to the
general policies of good data management, which is
they should not mean anything. There should be no
meaning ascribed to the digits, characters, that
make up that alphanumeric or numeric or character
string -- in terms of who the parties were, where
it was executed or anything else. Those are
attributes of the transaction, and they should go
somewhere else.

And I think maybe it might make sense
just to think about the whole work flow. In
addition to the use cases, one of the concerns
that we certainly have, as we look at all of the
NPRs, not just the data one, is how the
information is going to flow between the various
parties in the system, and how it's all going to
fit together.

And a transaction ID is an interesting
one, because that's something that's going to have
to cut across, and isn't as well defined as the
erlier discussion this morning, on counterparty
or legal entity identifier, which is a little bit
clearer, because they do have contracts for those.

And so I think we do need -- you know,
again, and I'm going to use -- I think the way to
move this forward, again, is to get a very small
group of people in a room to define the problem
we're trying to solve. Because there is a
difference between a transaction, and I'll call it
a "deal" on my books. And this is a problem -- I
started in derivatives back when we were
converting all of our -- Morgan was converting all
of its parallel loans into swaps under an ISDA
Master Agreement. And I remember having
discussions, whiteboard discussions, in the room about the difference between a transaction and an instrument.

And the reason I bring this up, because when we do, in the OTC market, an instrument effectively is a unique instrument -- well, say, I do a trade with Bruce, where Bruce and I have done a trade together, that instrument only exists for the two of us. And no one else needs to know about it in today's market, that we've done that particular instrument. So any transactions on that instrument are really between us, and we use our own nomenclature.

We're now moving into a market where we have to share that with other people. And we have to think about the difference between what is my position in that instrument at the end of the day, that might only exist between two parties, and the event and the way that might change through some transaction that might occur which is a one-time event.

And the way you talk about the SDR and
the continuation data, we talk about what is the
mark-to-market of a transaction over its life?
But a transaction only exists at a point in time.
The position I have, or that instrument, the
position in that instrument, occurs for the life.
And that's where this data modeling
exercise becomes really complicated. But if you
break it down into its parts, we might be able to
come up with a nomenclature that actually will
allow us to get to a solution.

MR. TUPPER: Thanks, Arthur. This is
Bruce Tupper with ICE. I'm actually -- just to
kind of summarize, I'm really glad you got all
this feedback.

Because when I read this section I had a
lot of concerns, because operating a repository
for intercontinental exchange, I quickly got a
call from the clearinghouse. And they said to me,
"Oh, my God. We just roll up the open interest.
And I'm not really interested in an ID, nor do I
have the systems to do that."

And then to Arthur's point, you got a
great view into how one, you know, one large
dealer handles trades, although -- that's not to
say it's right or wrong -- other dealers may just
amend a trade, and keep the life -- the trade
open. And as a central provider of services, we,
in our system, we're required to architect a
system that could do both.

And then, you know, Peter also said
that, you know, you're going to be generating a
lot of IDs, and then this is going to be very
burdensome on the SDR, because we're going to be
ultimately the one where all this stuff's coming
into, and I need to tie out everyone's trade ID --
which is a lot of columns. Because every time
someone gives you another ID, you're trying your
best to manage your tables, and link back all the
IDS.

And from the suss perspective, I think
the old -- they could easily generate unique IDS,
but once they report, they're really -- they're
not really involved in what life-cycle processing,
or what's going to happen post-trade. So, you
know, this is not to -- because we also, our
exchange guys are doing this and they're like,
"Yeah, great. I can issue an ID." And I'm like,
"Yeah, that's great. You're just -- you're around
for one night, then you're gone -- " and we're
going to be living with these trades for possibly
years.

So I think, going back to what Arthur's
saying, I think it would helpful to know what
you're trying to do with this ID. I think you're
going to run into difficulties trying to get every
potential, just call them "market participant" to
be able to manage them, because not all of them do
it.

I can't tell you that the SDRs probably
are best suited to do it. Because when we deal
with -- I'll speak to it from our perspective,
when we deal with it, we get unique IDs from each
person, and we show that to them, where we process
it. But to us, we always put our own behind it.
So that's fairly easy for me to do that in one
single system. And if I had to handle maybe a few
other, or foreign entities, it would be some work, but it's doable.

Once you start stepping out of that central processor, and if you quickly get to a clearinghouse, or you go back to other customers -- if you get out of the world of the swap dealers, the idea of adding other columns to their database, and tracking other IDs is going to become very difficult. You know, they're going to have to go back to their vendor, the vendor is going to give them a quote in order to do this, because they don't do it today. Whereas a firm like JP Morgan will just add the column.

So I think we need to kind of figure you -- and I'm echoing Arthur -- is that what would you like to do with the ID? And it's not so much the creation ID, but it's the ability to keep that ID appended to the trade correctly, and move throughout all the different reporting entities.

MR. AXILROD: I guess I don't know that it's really that hard. As long as your standardizing the number of digits, and it's not
too big, and everybody knows and can deal with it
-- I know that, you know, the smallest municipal
utility may not be able to do that. So I think
commodities is sort of a little bit different when
you get to -- you know, there's a lot of end-user
to end-user trades in commodities. And the
technological abilities of municipal utilities and
other small players may not be there. So I think
you need to sort of consider that somewhat
separately.

But for the large financial derivatives,
most people who have to report are technologically
sophisticated enough. Almost everybody has their
own trade identifiers. And I think, you know,
giving up trades for clearing is just another
instance of many-to-one, or one-to-many. There
is a contractual relationship between the
clearinghouse and the counterparty.

I think as long as you can solve that
many-into-one or one-into-many audit trail, it's
not -- actually, we don't necessarily do it the
greatest today. We can do it, but it's a little
bit convoluted. As long as you can do that, I think you will have your universal identifier.

Maybe I'm missing something.

MR. MAGNUS: Peter, I just think about applying that in the uncleared market. Because I think when you get to clearing, and you have that central counterpart and you can apply an ID to it, it's one thing. But there are going to be deals that are going to end up being bespoke, and will be bilateral. And the Dodd-Frank Act, and all the draft rules I've seen cater for that.

And so we need to make sure that whatever identification system we come up with also caters for that.

MR. AXILROD: No, I agree. I just didn't think it was that difficult for people that are used to technology. It's going to be very difficult for people who are not. And you just -- I do think that if you -- I mean, what we do is we map firms' IDs to our IDs because, you know, if you make everybody who's a market participant redo all their systems, it's going to be difficult.
But as long as the SDR is sure that they can track things with a unique identifier, I don't know that the people communicating with the SDR need to use that identifier. They could use their own if the SDR has linked it to a unique identifier.

MR. MAGNUS: And that probably is the practical solution for implementing something sooner, is to make that a requirement of the SDRs, to provide that -- potentially provide that capability.

MR. PRITCHARD: Yeah, I think Arthur and Peter have got it just right there. For the non-cleared example that we spoke about, as long as parties report their trade to the same SDR -- which I think is foreseen in the rule-making -- and they use a consistent internal ID, which is unique from their point of view, consistently over that reporting, then the SDR itself can be responsible for prefixing with it's own bit to provide the universal unique feature when reporting upwards to the Commission.
MR. MAGNUS: As long as we still get standardized market practice. Because the example I gave before, of that $100 million deal going to $75 million, in certain asset classes it's done one way, in other asset classes it's done another way, and we have to decide if we -- or certain firms will do it one way or another way. And we have to decide if we need to standardize that.

MR. AXILROD: It's not only across asset classes, actually. Within each asset class JP Morgan does it one way, and Morgan Stanley does it another way. And it gets -- (laughs).

MR. PRITCHARD: And I would think that you'll get pretty much the same value with a lot less expense if you let the SDR translate it, and don't impose standardization on every last end-user.

MS. LEONOVA: Okay. Then if, say, ID is generated on the SDR level, it has to drip down back to the original execution clearing and everything else.

Is it feasible from --
MR. MAGNUS: Right.

MS. LEONOVA: So how do you envision audit trail of individual books if you cannot track the SDR trail to, say, documentation of a particular counterparty in their books?

MR. AXILROD: That's part -- I mean, there's a little bit of latency, but it's part of the Act -- Act. In other words, when we get it -- I mean, Jonathan described it. When we get a trade in, when we send that trade back, if -- or if we get a confirmed trade in, when we send it back it has our identifier on it. We don't apply identifiers to information with unconfirmed trades, because you have this double-counting issue. You potentially get two legs of the same trade in with different identifiers, and then you have to make one go away once it gets confirmed. You can do that, but it's a technological -- more of a technological hurdle.

MS. LEONOVA: So you are talking about a system of mapping of identifiers?

MR. AXILROD: Of?
MS. LEONOVA: Mapping.

MR. AXILROD: Well -- that's correct.

In other words, when you have a central identifier you can map it to the firm's identifiers. But once trades are confirmed, they go out -- unique identifier generation can be done pretty quickly, and then your acknowledgment back, you can have your own identifier attached to it. So firm's can use it or not, as they see fit. Most firms don't use it. Most firms use their own identifiers and it works fine.

MR. CUTIHO: As a technologist, I think it's not very efficient to have a central system just issue IDs, and every system in the chain, just go and contact it every time. I don't believe that will work very well.

I think if the goal is to have an identifier at different points in time and recognize them as events for a life-cycle, you could have multiple identifiers and perhaps the SDR manages the complexity of tying the different identifiers together to give you an audit trail.
But I don't think polling a system to get an ID every time is a very efficient approach.

MR. TAYLOR: Let me summarize a bit, and get feedback from you all am I summarizing correctly.

What we've got in the proposed rule is not a system where there's a central giver of all the swap identifiers. We called it a "first touch" approach. The way we've got it is, if there's a platform involved here, a (inaudible) or a DCM, they create the swap identifier.

No platform, but you've got a dealer or an MSP who presumably has sophisticated systems, and is going to be the reporting counterpart, the way the statute is set up, they create the identifier. And if it's end-users on both sides, where there may not be systems, the SDR creates the identifier.

I think I hear you all saying you like that, as opposed to -- you know, in terms of who's creating it. Am I right or wrong about that?

MR. MAGNUS: As long as there's no
intelligence in the identifier. And by
definition, if a SEF or swap dealer is issuing
identifiers, there has to be some controlling
mechanism to either give it a block of identifiers
they can use or whatever. And that immediately
means that it has some intelligence in it, and
someone can reverse-engineer based on the
identifier.

MR. TAYLOR: The only intelligence, if
-- I don't know whether you should call this
"intelligence" or not. But if there is any built
in the way we wrote it in the proposed rule, the
proposed rule is saying that each of these
"creators" of an identifier would get a small code
that just identifies them. And that would be
either the beginning to the end of the identifier
itself. I mean, to be honest, we modeled that on
Tag 50 distribution from CME where, you know, each
clearing member can give Tag 50s, and once piece
of the identifier says which clearing member. And
that keeps them all unique.

I don't know whether you call that
"intelligence" or not. But is that problematic?

MR. MAGNUS: Well, it certainly identifies parties to the transaction -- potentially. So we have JP Morgan does a private transaction with somebody, and our little tag at the beginning, and everyone knows we have the number "5." If there's a "5" at the beginning of the transaction identifier, they know it came from JP Morgan, they know that JP Morgan did the deal.

So I guess part of it would be what is the -- how will that data be used, and what is the publication of that data?

If I assign that deal to somebody else, does it keep that same unique identifier, or "deal identifier" I'm going to use, instead of "transaction" -- or is the very nature of the fact that I'm now not in that, and now someone else is, is the transaction, and the actual instrument, you know, has a unique identifier?

Again, this goes back to the modeling issue that I said before, and we just have to be careful.
If only the SDR and the supervisors get to see that, probably less of a problem -- but not clear how the supervisors are all going to share this information, how widely spread it will end up being.

MR. AXILROD: Two things. One is, if you accept that as true, then the SDR has to create the identifier. You have to have -- if there's more than one SDR for a particular product type, you have to have some way of assuring that each SDR is producing unique identifiers.

And I guess I would say, generally, the program by which you use the reporting parties' -- remember, the -- right, the initial, in some ways -- right -- the initial trade, if it comes from a platform, that identifier is going to become irrelevant later, because it's really the dealer with the continuing reporting obligations.

I don't think it will work at all just to use the dealer identifiers. And the reason is, what we found is the dealers like to change them. And for various good reasons. There's a merger,
there's something on. They're changing their internal systems, they're changing their identifiers. There's lots of reasons why dealers might want to change their identifiers. And we've actually had to put in a program that allows dealers to go in at will and change their identifiers. And the way we manage that is we have our own identifiers, so that's what keeps the audit trail.

So I don't really thing you can get away from the repository maintaining their own identifiers at some level.

MR. TAYLOR: So, if I'm understanding right, if you were redesigning this you would say, yes, if it's executed on a platform, the platform should create the identifier at the beginning. But if it's not, forget the dealers, the SDR should create the identifiers or all of the non-platform executed.

MR. AXILROD: I don't know that it really matters who creates it. I honestly don't think it does -- as long as the SDR can manage a
single identifier all the way through. In that case, I would suggest it's probably easiest for the SDR to create it, because it's its systems that have to maintain this over their life. And, frankly, we could work with a lot of providers and say, "Here's how you have to give it to us," but it's easier and safer if we create them ourselves.

MR. TAYLOR: And then the other thing I thought I heard some consensus on was you all don't think the swap identifier is useful after a swap is cleared.

Am I right about that?

MR. CUTIHO: For a position-based clearing -- yes. After that point, it's just a position, and that position.

MR. AXILROD: I guess I --

MR. CUTIHO: Net long, net short. For trade-based clearing, we keep the trade open. But there are terminations. Once they're terminated, the IDs go away -- I mean, the swaps go away. A clearinghouse doesn't maintain trades.

MR. AXILROD: I guess I'm not sure I
agree with that. You have to -- when a trade is 
exacted, you want to know whether it went to 
clearing or not. So you have to still -- you 
know, unless we get to the point, and I hope we 
do, that, you know, there's automatic clearing at 
point-of-trade.

But under most models -- not all --
that's not the case yet. And you're going to have 
to say, "This trade went to clearing here."

So what you really want is, you know,
you have a cleared position that has an
identifier. It goes up and down, but you really
want to be able to say, "This trade went to
clearing," and be able to sort of document that,
and "This trade didn't."

MR. MAGNUS: But that actually
reinforces, I think, exactly what Sunil said, and
what I was saying earlier -- is that "transaction"
is an event, and a "position" is a position. And
in certain cases where you have position-based
cleared instruments, you will not care about the
transaction once it moves to cleared.
And you basically said, "I have the
transaction. It gets me to cleared. But once
it's cleared, I don't want to do continuation
reporting -- which is the other piece of this
NPR -- on a transactional level. I want -- the
clearinghouse will want to only report on the
position that, let's say, JP Morgan has, or its
clients have, in, you know, in ID-6, settling in
December, you know, 2016.

MR. AXILROD: Arthur, I think we're
violently agreeing.

MR. MAGNUS: Yes, we are violently
agreeing.

MR. AXILROD: I think there's, at that
point there's no difference --

MR. MAGNUS: Right.

MR. AXILROD: -- between the contract
and the position.

MR. MAGNUS: Right. But --

MR. AXILROD: They're the same thing.

You don't have the independent trade anymore.

MR. MAGNUS: -- but for those things
that are maintained on a trade basis, that you
can't get to a position, you're going to have to
maintain some semblance of what that individual
unique deal is for its life.

MR. AXILROD: All I was saying is, for
us it's the same thing. It looks -- a position or
a trade looks exactly the same to us. It's just a
contract between two parties.

MR. CUTIHO: And another nuance I would
like to add, post-clearing, is that there is a --
I think Arthur pointed to this before -- there is
a swap identified at the point where it's affirmed
or executed, but once cleared, it's broken into
two. And we're both -- you know, with the CCP
being the counterparty on both ends.

At that point in time, on an ongoing
basis, you know, it would make more sense for us
to report on a cleared identifier of that
position, even if it is trade-based clearing,
rather that, you know, the original execution.
Because we have broken the connection between the
two counterparties.
MR. TAYLOR: If a regulator is wanting to follow this "thing" over its life, and this thing gets cleared -- this may be another dumb question. But suppose we have a swap identifier that doesn't live very long. You know, you're following the life of this swap identifier for, you know, two hours or something, and then it says, "This went to clearing." Thereafter, in what you just said, is your ID would get replaced by a cleared-trade identifier, or whatever we call it. Is that a useful -- how would that work?

MR. CUTIHO: It's based on the purpose. So if your purpose is to track the life-cycle post clearing, then you want to know the cleared identifier. Because at that point in time, the CCP is the counterparty, not the (inaudible).

MR. TAYLOR: I think that would be the purpose.

MR. AXILROD: That's what happens today, both in clearing and in prime brokerage, where it's exactly the same process, where you have a lot of prime brokers net and compress with their
counterparties. That's what happens.

When the CCP, or a prime broker, steps
in the middle and becomes a counterparty to the
trade, we get fed the identifier of the person who
stepped in the middle. Sometimes we can attach
that to a particular transaction as an assignment,
and sometimes we can't because it's a many-to-one,
so we just keep a record that that's what
happened.

But if we know what the cleared
positions are, and we have the clearer's
identifier, it's just the same as a counterparty
giving us an identifier. We just want to make
sure that we've kept them all separate, and we've
got the appropriate inventory.

MR. MAGNUS: Again, if I do a
transaction with Bruce, the moment I move it to
clearing, I no longer have a relationship with
Bruce. That transaction does not exist. So
there's no way you can -- or that deal does not
exist in my records anymore. I now have a deal
with -- I'll use Sunil -- with Sunil as the
clearer, in that particular example. And Bruce has a position with Sunil.

Now, I may do another trade with somebody else that flattens my position out, so I actually have no position anymore. I'm not going to track anything, because those two positions are equal and offsetting and I'm done. I've assigned it, or whatever. Bruce may go add on to his position.

And this is not terribly dissimilar to what you're doing in the futures market today, where an FCM in the futures market is required to keep the transactions that led to the end-of-day position. But once you get to the end of the day, and everyone's confirmed and agreed the end-of-day position, they basically stick those in an archive somewhere, and will make it available if you ask them for it. But they don't report it anywhere.

And that's not a terribly dissimilar concept. And, again, it goes back to what are we trying to trace? What is it that you want to trace -- quote -- "through its life-cycle?" Do
you want to understand what JP Morgan's position
is over time and how we got there? Or are you
trying to understand, literally, an individual
transaction, and keep it alive much longer than it
really is alive, for some purpose that, quite
frankly, I'm not sure about?

MR. TUPPER: Yeah, and just, if I may --
if the SDR is providing the reporting function --
the SDR is mandated to provide reporting
functionality to the Commission -- right? So if
we're able to provide you that rolled-up reporting
functionality each day, that gives you the net
positions, I think -- you know, I kind of agree
with Arthur -- I'm trying to struggle with what is
the need for the Commission to know, behind the
scenes, the audit trail, how it calculated that
net?

Because if, you know, the SDR would be
receiving the cleared positions from the DCOs, and
then the uncleared positions would come in from
the reporting entities, and then they could
aggregate up these net positions for you --
MR. AXILROD: I mean, I think the regulators -- I don't think anyone's saying trying to trace a trade that you can't trace anymore because it doesn't exist anymore. But I think the regulators probably want to know if the world has changed from today to tomorrow, why that happened. And whether you call that, you know, "audit trail" or whatever, you're going to want to know "This went to clearing," and you're going to want to make sure that it foots -- that everything that went to clearing actually results in the net position that the clearer is reporting, that sort of thing -- would be my guess.

MR. PRITCHARD: I think, you know, we run a rates repository (inaudible) where we get 3-point-something million live contracts in, and a lot of them are cleared. So, you know, we simply get a set of live contracts every reporting cycle, and some of them are cleared and some of them aren't. And if they want to look at something else, like the history, then they can construct that in some way.
But fundamentally what's being reported is a set of live contracts. And whether they're with a party and a clearinghouse, or party and a party -- but it does point up, for some of the sort of clearing scenarios that were alluded to over there, that these rules -- if you want to have a universal set of identifiers, will need rules for what constitutes a new ID being generated or not.

MR. TAYLOR: Let me ask both Pete and Raf -- because you illustrate the conceptual universe here, I think, on continuation data reporting.

Take a cleared trade. A swap was made. It went to clearing. And now, over its existence, it is being reported to you.

Pete, you're getting life-cycle events, if I understand properly. And Raf, you're getting snapshots.

What's in those, and who's giving it to you? Is it coming from the clearinghouse? I mean, walk through that.
MR. AXILROD: It depends. If the clearinghouse is doing its own life-cycle event processing and reporting it, then we're getting it from the clearinghouse.

Most clearinghouses -- I mean, not everyone at this table, but one of the two at this table -- oh, this is going to change -- is actually using DTCC's sort of trade warehouse to do it. So, in a sense, we would -- the repository, if you will -- would get that information from the warehouse.

For other credit events, we either generate it. For the non-standard trades -- which, by the way, given the last session, I believe include all the AIG trades, so I am wondering whether a category of "non-standard," and throwing everything into that bucket would help us much.

That aside, I think -- I mean, this will -- you'll see this in our comment letter. But I think you ought to be, repositories ought to have the flexibility of using whatever method is
easiest and best for the market participants.

For the trades that are non-standard, it may be easier and better, you know, for us, instead of asking people to report the life-cycle events, to just have them report the snapshots -- especially if there's a lot of life-cycle events.

When there are not too many life-cycle events, you know, it might be easier to have people just report the changes, or report the life-cycle events.

So, right now, for electronically-confirmed trades -- which is what we deal with for credit, but not for equities, where we're sort of going to have to change what we do, because it's actually much more like what TriOptima does -- but for electronically-confirmed trades, I would expect that it's just easier for everybody to have the life-cycle events reported, because they're either going to be computed centrally, or they're going to be confirmed. They're confirmable life-cycle events, they'll be confirmed electronically, and they'll come in for
trade. So they're not electronically confirmed, it may be that the only way you can get them is by snapshots.

But I think, I really think that repositories -- right? -- if one is good enough, and the other -- if both are good enough -- right? -- then the repositories ought to have the flexibility to use whichever they want to use. You know, if it's good enough for credit, it should be good enough for rates. If it's good enough for rates, it should be good enough for credit.

That's our view.

MR. PRITCHARD: Well, I'll just follow on briefly there. I think that the two -- you know, from the point in time of the state reporting approach to repositories, the two advantages -- and I think Peter was saying it's easier in circumstances, but we'd totally agree, is that it's more robust, because you're not dependent on anything that was ever previously reported. You simply get a full refresh. If
somebody's got a zero position, they don't report.  
If they've got a non-zero position, they do report. And you just get that fresh, from scratch every day, so it's more robust and self-correcting.  
And, secondly, you don't need any of these rules about the scenario under which the trade was done, or the history of how it got to be there, because you simply just report all outstanding positions every day. And it makes it a lot simpler to know that you're in compliance, and that you just report --

MR. AXILROD: I can't let that go un-commented on. I actually think it's a lot less robust. And the reason I think it's a lot less robust is because a snapshot simply won't tell you why something happened. It will just tell you that positions changed, and you won't really know was this a tear-up? Was this a compression? Was this an assignment? Was it a price-forming event? Was it not a price-forming event? Is it relevant to the market? What's going on?
So I think, I mean, that would -- I know we could go back and forth for a while. But I would take the opposite view.

MR. MAGNUS: I would just add one thing to that, which I think you've highlighted in both of your comments, and there's truth to both of what you're saying -- is that this goes back to saying we need to be objective-based in what we're trying to accomplish with the reporting and with the identifiers.

And, you know, I would argue from JP Morgan and from many of the industry groups that I sit in, we believe that the regulation should not stipulate the technical method for accomplishing the objectives. It should state, "Here's the objectives of what I want to see at the end of every day for continuation reporting," and the industry should figure out what is the best way to do it for that asset class, which may be the right way to do it today. And it may be that three years from now, you know, the industry may change, and it might be better to do it a different way.
And for CDS it may change and you want to do it a
different way, also.

But it should be objective-based, and
not actually dictated in the regulation, what
method of reporting to the repositories you should
use, whether it's life-cycle or totally placed.
You should state what the objectives are, and
we'll figure out how to meet those objectives.
And we'll work with you to figure that out.

MR. TAYLOR: We've let this discussion
-- because it was so interesting -- bleed a bit
into the Q&A time. I suppose I don't feel too
bad, because I think Pete's the only person in the
audience -- and he's not in the audience anymore
-- who asked a question. So we're probably safe.

But I will open it up. Is there anyone
who wants to ask a question relating to any of
this? There's a couple microphones out there if
anyone does.

(No response.)

MR. TAYLOR: Passive investors. What
can we say? What else do you think?
MS. LEONOVA: Okay, then. I guess we're going to have a 20-minute break for coffee. Thank you. I really appreciate your making it here.

MR. TAYLOR: Okay. We're ready for Panel 6, the last of the day, but some very interesting topics. I think everybody is here. Does everyone have their name tags? Yes.

We've moved, you know, into a different arena. Not identifiers now but there were interesting questions before us about whether there would be utility in some sort of master agreement library or some sort of portfolio data warehouse and we wanted to get more input about that. So that's the topic here.

And let's start with the first question we have, which is should a separate collateral warehouse system be established as part of an SDR to enable the systemic risk and prudential regulators to monitor collateral management and gross exposure on a portfolio level for swap participants? And if so, how do we do that?

MR. MAGNUS: So allow me to take a stab
at that. We've been talking about that. This is Arthur Magnus from JP Morgan.

One of the other hats that I wear though is co-chair of ISDA's Collateral Committee. And it's something that we've been discussing in that forum for a long time. And then in reading the NPR we got a little bit concerned because there are concepts in there that do not work at all in the bilateral space. So particularly, we cannot ascribe -- in the valuation data that you have, we cannot ascribe collateral to an individual transaction. The bilateral OTC space is on a contractual or portfolio basis. We have ISDA master agreements and CSAs primarily, credit support annexes, and they dictate what transactions are part of that portfolio and how that collateral is to move. And we provide a call to our counterparties if we are the valuation agent for collateral and they provide it to us on a portfolio basis. We reconcile the transactions that underlie that on a transactional basis but the collateral is pooled.
And for what I'm going to call exposure collateral -- not variation margin, and that is just because the term variation margin as we use it in the bilateral space is different than the draft definitions that you've provided and the way it is used in the future space. And I want to suggest that we need to keep them separate and be consistent. And that will be in several of the comment letters I think you'll get in the not too distant future.

So I'm just going to call it exposure margin when I'm talking in the bilateral space and I'll use variation margin for the cleared space. But for exposure margin, it generally is an offset for mark-to-market. So you could argue that the collateral we have you could prorate it among all the deals based on the mark-to-market but it's never an exact match because of the point in time. Initial amount, which is a separate amount that we get from certain counterparties, can be calculated any number of ways. Sometimes it's on a deal basis but frequently it's on a portfolio basis.
also.

So in thinking about that and thinking about the prudential and systematic risk oversight that the regulatory community abroad needs, the only way that you're going to understand what our true risks are and what our true counterparty exposures are is on a portfolio basis. Therefore, we would strongly support the creation of a -- I'm not going to call it a warehouse because that actually has other connotations and collateral, including physically where the collateral might be stored. So I'm going to call it a collateral evaluation repository. Just to be clear, it looks like other repositories and it's on a portfolio basis where it would have in it a variety of attributes, including the mark-to-market of the -- the mark-to-markets of the portfolio or the exposure that we have to each other on a net basis -- sorry, on a gross basis without any benefit of any credit support. And what is it after collateral, which is a specific type of credit support. Obviously, there may be other credit
support which is very hard to -- it's very hard to
put in there what is the value of a particular
lien we may have on property, plant, and
equipment, or whatever it happens to be.

So we would recommend that type of an
approach. And then we could also provide for you
what is the cash and marketable security
collateral that is behind that. And if you want
to know where it is we can tell you that also,
which we think would serve the purposes of the
systemic oversight that you are trying to
accomplish.

So I'll stop there. We can talk about
how you get that and build such a thing if you're
interested.

MR. TAYLOR: We are but maybe let's go
around on the first question first and then we'll
come back to how do we do it.

MR. PRITCHARD: Maybe I can talk a bit
there. This is Raf Pritchard from TriOptima
again.

So we've talked in some of our previous
discussions about repositories, about the
diversity of goals that have been set out for
repositories, systemic risk monitoring being one
but not the most important one, but an important
one, but also market risk surveillance and
enforcement, and realtime reporting. And one of
the things that we've alluded to is that that's a
different -- that's got a diverse selection of
goals and as a software architect it kind of sets
up some challenges as to which one you're going to
meet when you design the repository. So I think,
you know, what Arthur is describing there, a
collateral valuation repository does definitely
address the systemic risk goal much more directly.

And we've been providing an exposure
management service for some time now whereby
parties can exchange their data on their line item
OTC swap basis and evaluations. And what that
enables them to do for their collateral process is
to reconcile the total exposure they have between
each other early in the 24-hour cycles so that
they can get to moving and settling the collateral
and delivering the risk mitigation that that
provides. And I think, you know, from what we can
see we get 75 percent of the noncleared OTC swap
live contracts through that service and the large
number of dealers and firms on that. And you can
see that if you took that and extrapolate it
upwards a layer so that you aggregate it across
the firm's positions you would get to a pretty
good view of systemic risk. And so we, you know,
I think it's a good approach towards systemic risk
monitoring and it's a feasible one, too.

MR. WILL: It's Michael Will here from
docGenix. I would agree with Arthur to the extent
that a different beast is required as far as the
nature of the repository here. We are definitely
looking at a portfolio animal, if you like. Where
I would slightly disagree with him is really in
terms of the level of information that is stored
within that particular repository. We're here
today to discuss two central themes that have been
enshrined by Congress in the Dodd-Frank Act, and
namely these are transparency and accountability.
To achieve these objectives, it's my view that you, as regulators, will require access to information that's been reduced to data from three distinct but related document types. These are the confirmations, which (inaudible) very well, the economic terms. But we also need some information concerning enforceable master agreements and enforceable credit support agreements. The master agreements themselves include the legal and credit terms, and the credit support agreements contain the margin terms.

As I've watched you promulgate these rules, I think it's right and proper for me to perhaps be a little concerned that you are, in fact, missing an important part of the picture by focusing primarily on the economic data to the exclusion of legal credit and margin data. And as a result there's perhaps a risk that you might be unable to achieve the transparency and accountability objects of Dodd-Frank.

In short, if you only have access to the economic data, in my view you'll have a mere
one-third of the information you need to evaluate counterparty credit risk. And counterparty credit risk is, of course, a key component of systemic risk. In any crisis or legal proceedings, in my view it's inevitable that the legal credit and margin terms enshrined in the master agreement and credit support agreement will take center stage. The events of the past couple of years are no exception.

Why is data from these legal agreements important? Well, it's really quite simple. They're the primary mechanism by which the parties manage and mitigate their counterparty credit risk exposure to each other. So I do believe it's a good idea to have a collateral agreement data repository and that swap dealers and major swap participants should be asked to submit data to it. Once you have this repository and you have access to the credit support data, you're going to have access to a number of key pieces of information. For example, is a relationship actually collateralized? I think currently data released
by ISDA indicates that 22 percent of all bilateral
relationships are not supported by collateral
arrangements.

You'll be able to have a very
transparent view as to the nature of the
collateral the parties are using. You'll have
indications of whether they're using cash,
government or agency securities, perhaps any other
collateral agreed between the parties, and
sometimes in these agreements one of the parties
will have the right to say I unilaterally decide
that this is eligible collateral and the other
party will have nothing to say about it. You'll
learn about valuation percentages and haircuts, as
well as minimum credit requirements for the
collateral. Frequently collateral will need to be
highly rated to be eligible.

Thresholds also are of great interest
because they're used to calculate exposure. I'm
referring here, of course, to independent amounts,
thresholds, minimum transfer amounts, and initial
margin. And this is important. These thresholds
are extremely sensitive to minor changes in credit
ratings and asset value declines.

Another important factor will be the
nature of the relationship. Is it bilateral or
unilateral? In some agreements only one party has
the obligation to post collateral. You'll be able
to find out rights of the parties to substitute
collateral, valuation procedures and dispute
mechanism, the rights of the parties to reuse or
rehypothecate the collateral, as well as the scope
of the collateral coverage. Indeed, it's not
uncommon for parties to actually exclude
transactions from the collateral arrangements. So
I think we need to go a little bit further.

MR. PICKEL: Bob Pickel from ISDA. Far
be it for me to suggest that there's not a wealth
of information in master agreements and credit
support annexes. (Laughter.) There is plenty,
and it is very important, and as Mike suggests, at
critical times it is, you know, in many ways the
most important information.

I guess I would circle back to a theme
that we've been sounding in some of our comment letters. I think it's been sounded to some extent today. We certainly sounded it yesterday with the New York Fed and Sarah Josephson from the CFTC and other global regulators, and that is let's figure out what the critical first steps are here in terms of the information that you feel you need.

Yes, I think there's a lot of -- the risk that get created, the exposures that get created are created through those transactions that are put on. And so it's important for you to have a window into that information.

It may very well be that it's important for the CFTC to have the kind of information that Mike suggests and we can look at that over time. I think most importantly you should have -- make sure that the prudential regulators are requiring their regulated entities to maintain this information. Obviously, make sure they've got master agreements in place and there are other master agreements. I think the LEAP one was measured earlier today. That they know what the,
you know, obviously you have access to the master agreement. You know what's in that. There's a schedule to that. That's the structure. It's really those variations from the master that are most relevant in many things like cross defaults and the credit support annexes, various thresholds and triggers and things like that that are very important.

So I think it's important for the regulators to require the institutions to have that in place. And there can be -- there are mechanisms, and Mike I'm sure would be happy to talk about them, that may facilitate the more ready access of the entity to that information. And we'll see how that develops over time. But I guess I would, you know, circle back to the notion of phasing in. Let's think about what's most important, what the first steps are as we consider these other issues of master agreements and credit support annexes.

MR. TROZZO: Pat Trozzo from Reval.

Just to extend some of the good points that have
been brought forward here today, taking it up to
maybe a little higher level first, is, as I read
the rules, I believe there still needs to be
further definition of what are the goals in the
area of overseeing or measuring and tracking
systemic risk. Like many things in our business,
the devil is in the details. And those details
will drive a lot of the issues that we're hitting
upon here today and answer to some of the
questions -- many of the questions here in this
panel. So I think that first needs to be --
questions of if you are looking to what degree to
measure it, right now potentially the rules are
written that you're limited to more of a current
exposure approach of looking at counterparty
credit exposure as opposed to maybe some
alternative means. So I think that definition
needs to be further extended and clarified. And
then that will help drive a lot of, if you will,
some of the answers to these questions.

And then one other thing I'll add is
there's the legal aspects of netting and so forth.
All the points brought forward here are correct and I agree but there's one other area what I would call more of the economic look of the exposure across an enterprise between one enterprise and another enterprise and looking at the overall exposure, that on the bilateral mass agreements doesn't necessarily cover it. There is a related party effect of multiple agreements that may come into play here and I call that more the overall economic look. So that also I think needs to be taken into consideration when looking at overall systemic risk and counterparty credit exposure.

MS. GOLDMAN: Hi. I'm Melissa Goldman from Goldman Sachs. I would also like to reiterate the points made by both Arthur and Robert in terms of the way we view the collateral risk and being at portfolio level and the need to be able to represent it that way to get the most accurate view of where the risks live. I would, to Mike's point, I would like the agreement sort of data similar to some of the
conversations that we had around the product identifiers in that the -- you could think of the masters and the CSAs as a -- almost as an exotic in how we need to model that data and represent that data. And it's not always at all straightforward in terms of how that becomes represented within a data model.

Additionally, I think there's, you know, a significant amount of interpretation that happens with that data and so to be able to sort of go through that -- the cost of going through that interpretation and then systemically representing it in a central repository would be a quite expensive exercise.

MR. AXILROD: Can I just make it unanimous in the sense that I think, you know, the obvious missing piece from what everyone had been doing was the collateral. You simply are not going to understand -- this may not be sufficient but you simply are not going to understand systemic risk or exposures unless you understand what collateral is held where and essentially
parties' legal rights to it. So yes, I fully support making that fact transparent to regulators. I think that I also agree that on a bilateral basis, just as on a cleared basis, right, nobody collects collateral, whether cleared or uncleared, on a trade by trade basis entirely. They do it on a portfolio basis generally. So you're stuck with portfolio-based collateral reporting, which means that you're going to have to put together all the various valuations that you got in the individual repositories, assuming that they're complete and accurate. You probably ought to include in what's reported to repositories as maybe static data or something else, whether this particular counterparty or this particular group of transactions actually is done on a collateralized basis or not. But the important thing really is to compare the value of the portfolio with the value of the collateral. If there's a very big disparity, you know you probably have to make some more inquiries.

The other thing that you really need to
get a handle on is, you know, and this will come
down to concentrations, but what collateral might
a counterparty have to put up with very small
movements in the market or a particular event. So
if you've got -- if it looks like a party is going
to have to come up with collateral upon the
occurrence of certain events that they're just not
going to be able to come up with. And this
includes across cleared and uncleared trades. And
you won't understand it unless you get the whole
picture across cleared and uncleared trades.

You're not going to know whether a
particular event will drive that party under and
essentially, you know, cause the system to
collapse. And in that event, the legal right to
require people to post collateral isn't so
important as the practical realities really. Is
this guy extended to the limit of the amount of
collateral he can post? Will certain sorts of
events make it so it's going to be impossible for
him to post variation margin? Should people be
collecting additional either CCPs or bilateral
counterparties? Collecting additional sort of initial margin because these positions are just too concentrated and you need to do something to protect yourself against the fact that when the position starts to deteriorate, generally this firm won't be able to come up with anything to provide anybody.

So I think you need to concentrate. A, we need to have a repository like this. You need to know where the collateral is and you need to do something to figure out, you know, these sort of exposure to events over concentrations that are going to make it difficult if not impossible for a firm to put up additional collateral.

MR. MAGNUS: I would just add to that that, you know, JP Morgan has spent tens of millions of dollars to build systems to take the data that we have in our master agreements and in our transaction and data repositories to look at our exposures in different ways to understand what happens when a counterparty gets downgraded or a trigger or something happens in the market to
stress test the portfolio. These are very, very
complex calculations and we make them available to
our prudential regulators already on a regular
basis.

I think this is incredibly important
information and, you know, my first, you know, the
first thing I would say is, you know. Dodd-Frank
is going live in this year. If you're going to
collect this data and do something with it it's
going to take years to do. It's taken us years to
build the infrastructure as we have to manipulate
this data and use it effectively in our risk
management regime. As has been pointed out in
numerous other places, you know, a huge percentage
of the market share -- I think the CFTC has quoted
over 90 percent of the market share is
 consolidated in five dealers which are all subject
to prudential regulation in this country. And we
already share with those prudential regulators
significant information about our portfolios and
what happens in various scenarios.

My short term recommendation, certainly
until we can sort of what we're doing because I think this is important and I think Dodd-Frank says you should have -- you need -- we need to make sure this information is available in some form -- you should look through the Financial Stability Counsel, as well as working with the OCC and the Fed who are generally the prudential regulators through the -- I guess it's the memorandum of understanding (MOU) process that you have between regulatory agencies to share this information because that will give you a huge view of the risks that are currently being run in the market place.

I think that a master agreement library is probably, you know, an expensive definition of what is in Dodd-Frank. And quite frankly, I think we have so many fish we have to fry, if you will, in order to implement what we have to implement. We ought to focus on that first and then come back to this one at a later date because this one -- there's so many different ways you can use that data that just collecting it without understanding
how you're going to use it I think would be
difficult and just incredibly complicated and
expensive. So we're going to put it into
repositories and we're not going to use it because
we can't figure out what we're going to do with
it. And if we're not going to spend the tens and
hundreds of millions of dollars you're going to
have to spend to actually crunch it, then we're
probably not the best use of our time at this
moment in time. And it's probably something we
should be coming back to after we move somewhere
down the road. And I would echo what Bob said
earlier and what we suggested to the ODSG
yesterday through the IIGC, is that we need to
move in incremental steps to implement this. This
is a sweeping piece of legislation, as we all
know, and it contains many structural changes to
the infrastructure. And we need to work together
and we need to do it in a stepwise fashion in
order to implement this in a way that is not going
to disrupt the market and disrupt commerce in the
United States and potentially move jobs and
business out of the United States.

MR. AXILROD: I would agree.

MR. TAYLOR: Before --

MR. AXILROD: Oh, sorry.

MR. TAYLOR: Before he does that follow-up, I thought somewhere in the course of that you shifted over from information about collateral to master agreement library. And I just want to make sure which one we're talking about.

MR. MAGNUS: I was -- I was particularly talking about the master agreement library. As I said before --

MR. TAYLOR: Let's save that one.

MR. MAGNUS: -- I support -- as I said, I support and JP Morgan supports the idea that we should create a single portfolio repository for looking at exposure-related information and the credit support and collateral against it to be very clear.

MR. TAYLOR: Okay. Let's -- let's beat one horse to death before we do the other one.
disagree with that and the reason why, perhaps not surprisingly, is that the only way you can get a complete view of the exposure you have to a counterparty is a combination of economic data contained in the confirmations, the master agreement, and the credit support agreement. I understand the points and actually would endorse a phased approach. I think that’s a good idea. But I think if you as prudential regulators want to be -- want to have advance knowledge of say a ratings downgrade hedge trigger that it impacts a particular party, I'm not sure with Arthur's proposal that you would actually have any advance notice. It would just happen. However, if you had access to information in the master agreement which required a party to post collateral, then you would. You would know it was coming.

MR. AXILROD: I would say amen. First -- first, I'm sorry, to Arthur. (Laughter.) You've got to understand the collateral. Right? The last place anybody wants to be is, you
know, big counterparty exposures and not having a
cue what the collateral is. And I can just see,
you know, Senator, I don't know why I didn't know
but we didn't know. I guess my successor will
figure that out. I think that's a -- I think you
really have to get that first things first.

MR. WILL: I think some senators have
actually been told, Senator, I didn't know.

(Laughter.)

MS. GOLDMAN: And just to echo Peter's
point, I mean, you have to walk before you run and
I think there's a whole slew of data that's out
there that's going to be relevant from a risk
management perspective even beyond the stuff that
we're talking about here but it's really about
where, you know, the core of the risks exist. And
in fact, I think the industry is moving towards,
you know, some of the biggest risks around
portfolio reconciliations and dispute resolutions.
And so where, you know, we see the biggest issues
focusing our time and our resources around that
rather than on some of the collection of this data
which then would absolutely need to be, you know, invested in the collection and then beyond that modeled in a way, that would give meaningful kind of risk information.

MR. PICKEL: And I think -- and I realize for certain types of entities, the CFTC might become a prudential regulator. But of course, the most active participants in these markets are going to be the large financial institutions who will be -- have a different prudential regulator. And obviously, as Arthur and Melissa mentioned, you know, there needs to be coordination with them on this information.

You know, collateral is critical. Whether that just means that -- whether that means the prudential regulator has to know all the details or whether it needs to be confident through its oversight of the entity, that the entity has a good handle on that and that the prudential regulator has the opportunity at any time to find out what that position will be or is, I think that's a different scenario than kind of
everything getting, you know, flowing into the
prudential regulator. It's a question of making
sure that the regulated entity has the
methodologies in place, the practices in place to
make sure that they are tracking it properly and
in turn the prudential regulator can see that.

MR. PRITCHARD: Can I just comment
there? I think (inaudible) swapped out a
repository hat on again and it's interesting what
Melissa said. She characterized the collateral
terms as an exotic because there's a sort of walk
before you run aspect to this which is, you know,
we've heard about the exotics bucket today already
and I think you really need to be sure that you're
capturing all those trades in some detail and
capturing the valuations of all those because if
you're not doing that effectively, then knowing
about the what if scenarios on your
collateralization is really of secondary
importance. So I think to Arthur's point about
the phasing and putting things in order, then it's
really important the repository captures accurate
-- the accurate complete population, exotic as well as standardized, and gets values on that on a continuation basis. Then captures the exposure at the relationship level and then can start looking at the more exotic sort of scenarios on the collateral.

MR. AXILROD: I guess I would never disagree with a statement that they swap data repository out have the best possible, most accurate, most up-to-date swap data that the regulators want to see. And I agree with that. But I honestly think that you could equally say without understanding the collateral the swap data information isn't very relevant either. This is one of those cases where you really need to have both and it's not -- you're not -- I don't think you ought to sequence the -- what Arthur called the collateral reporting repository with the swap data repositories. They ought to be, whether it's, you know, sequenced maybe by a couple of months but that's the basis. You need to see all that information.
MR. MAGNUS: No, no, Peter, I agree with that. What I was saying sequence was if you want detailed master agreement information.

MR. AXILROD: No, no.

MR. MAGNUS: I totally agree that the swap data repositories and this portfolio repository probably need to come into existence. There's relationships potentially between them that we could devise through interesting use cases. But they're going to be separated by whatever the practicality is of building them. We'll probably build them on independent tracks and they'll be done when they're done but it'll be around each other. It's the more detailed master agreement information that I was commenting on.

MS. GOLDMAN: And by the way, I was echoing that same comment. Okay.

MS. LEONOVA: Can we focus on independent tracks for collateral data warehouses and whatever else we are talking about right now?

You can't keep names straight.

MR. TAYLOR: And let's do -- let's do
the collateral piece first. There seems to be passionate unanimity around the table that the answer to our very first question, should we have a separate collateral warehouse system, is yes, absolutely.

Well, the next question was, how should this be done? And I thought I was hearing in what some of you were saying the notion that there might be one SDR warehouse repository or whatever you want to call it here, that that information might not be sitting in each of the SDRs but might be sitting in one location. Obviously, the other possibility is that it sits in each SDR with respect to the swaps that got reported there.

MS. LEONOVA: It doesn't really matter whether it sits in the same SDR, not whether it's the same system or not.

MR. TAYLOR: Yes.

MS. LEONOVA: Whether we want to keep two separate systems and if they are separate how we link them or we try to merge it all together.

MR. MAGNUS: So logically -- forget
about where it physically resides -- there should be one -- as we will probably end up with one hopefully asset class repository for each asset class, the regulations, the draft regulations provision that we might end up with more than one, that information cannot be housed with the asset class information. It needs to logically be kept in a portfolio that cuts across asset classes because the information is across asset classes. The portfolio I described before, which I did not put that adjective on it, is across asset classes. The ISDA master agreement and the CSA cover all asset classes simultaneously between two legal entities. So therefore, it needs to be in a separate place.

Now, whether or not we have multiple repositories that have this information, that could become inefficient and then you have to figure out, well, which one does it go in and who is doing the reporting, which are other things we'll figure out over time. There are probably advantages when you start talking about that, at
least for the large players, to have large players put their entire portfolio in it and not have, for example, I'm going to use Goldman because Melissa is sitting next to me. If Morgan has -- if one Morgan entity has a portfolio with Goldman to say that Morgan is always going to be reporting it actually probably makes some sense for both of us to report it from our vantage point because that actually provides with the biggest players some useful information to you about whether or not we're valuing those portfolios roughly the same.

MR. TAYLOR: No, I have had prudential regulators say to me it's interesting, it's useful to know that AIG, just to take a random example, thinks this collateral is worth, you know, $100 billion and the counterparty things it's worth $10 million.

MR. MAGNUS: Thing that that I would -- and I would absolutely agree with that. The other thing that I would say is the biggest issue that we had around transparency with that situation was the fact that there was a longstanding dispute of
a very large size that was not transparent to the supervisory community. As we told the -- as we told the ODSG yesterday, we believe that we've actually solved that through the commitments process of providing reporting of large disputes on a regular basis to our prudential regulators. At least now they have the tools to identify that. We also have portfolio reconciliation and a few other tools that are coming out in your draft regulations also that would prevent that type of situation. But I absolutely agree that you would want to see both sides of that if you can. And obviously there are certain counterparties in the market if I'm dealing with a smaller corporate, for example, that probably would not be reporting into that portfolio repository. It probably doesn't make sense to force them to do that to be a player.

MR. TAYLOR: Two follow up questions to that. One of them is I take the point. I think I thought some agreement to this that this goes across asset classes. And I think it's obvious
that the statute at least permits a repository for
a single asset class. I mean, it doesn't say that
repository can't do multiple asset classes but it
doesn't say it has to either. Does that suggest
then this really needs to be in a separate place
as opposed to each SDR?

MR. MAGNUS: Again, to the point I
started to answer Irina's question is it needs to
logically be separate from the asset class
repositories. I mean, if there was one uber
repository that we had globally that covered the
entire derivative world, that's a different story.
That's not going to happen under any scenario I
can think of.

So we're going to have asset class
specific repositories. We'll probably have
multiple repositories in an asset class as we
start going international. But if a prudential
regulator wants to see, and particularly a
systemic regulator wants to see what JP Morgan's
position is to any other counterparty, we should
be reporting that somewhere so that our prudential
regulators can see that at a summary level. We provide that information today by the way and they have access to that information. They have to come to us to get it and they have regulators and supervisors onsite who go into our systems on a regular basis to see that but if they want to see it in aggregate then you need to report it somewhere.

MR. PICKEL: I think that having the repository -- I'm not going to contradict my members here. If they want to have it, they'll build it, they'll make it, and they'll make it available to the regulators. But ultimately, that can't be any substitute for the prudential regulators really getting in there and understanding what the collateral positions are, what the policies are. That's what I would get back to. The repository may be a good first look to see what the big picture issues are but if the work's not being done at the regulatory level in the institutions, then the repository is not going to be all that useful I don't think.
MR. MAGNUS: And Basel II actually
supports that because we have to actually do some
fairly complex exposure calculations that take
into account all of this information in order to
produce risk graded asset requirements under Basel
II. And our prudential regulators are the ones
who have to sign off on the models that we're
actually using. And so they are -- I can assure
you they are spending a huge amount of time
digging through how those models work and what
information goes in the controls over those models
and everything else. So one would hope that we're
doing a reasonably good job calculating in a way
that the supervisory community is comfortable with
so that the results that come out of that would be
of use to the various regulatory bodies and we
would not try to replicate those calculations
externally. But again, reporting it could add
value. And if you're going to want that
information, I can understand many reasons why you
might want to see it in a data store so you can
look across organizations and not only see how
much exposure JP Morgan maybe has to a particular
MSP or an end-user, but how much five other
dealers have and see it in some aggregated way.
That becomes useful in a repository. But short of
that I would go with Bob's approach, which was the
prudential regulation approach.

                       MR. TAYLOR: Let me ask all of you, are
you thinking that this information needs to sit at
least in a separate system, as opposed to, you
know, this is (inaudible) all the regulator
assets?

                       SPEAKERS: Yes.

                       MR. PRITCHARD: Yeah, I think if I can
just go back to your original multiple repository
question, I mean, in order for parties to agree
their exposure between each other which they then
subsequently collateralize, they submit that live
contract on a cross asset class basis to a single
venue, exposure management service, that then
reconciles them.

                       And secondly, as both Arthur and Melissa
allude to, you know, collateral is not really
meaningful at the transaction or life contract level in OTC derivatives. It's only really at the relationship level. And so the fundamental, you know, the trade repositories are at the trade level and then this collateral or this exposure view would then be at the relationship level. And that would be -- there's some advantages of that because it, you know, as we've seen there are multiple repositories and this would pre-aggregate that.

MS. LEONOVA: May I? I didn't get (inaudible) discussions on Panel 4 and 5. Does it mean that we want to ultimately track the master agreement identifier rather than transaction identifier itself and link all individual positions (inaudible) master agreement?

MR. AXILROD: I guess eventually but I think you'd want -- I'm sure this thing is going to evolve but you need to stop right -- you need to stop the bleeding. And you know, so far not much of what we've been talking about actually affects the AIG type of situation which was the
largest single contributor of TOC derivatives to
the 2008 crisis. And this sort of thing does.
Right? If you have -- if you have the positions
and if they get very concentrated, which means
that the concentrated positions are sort of
dominating the portfolio, if you will, to relate
it back to the other discussion, the exotics are
now a large part of a systemically important
firm's portfolio. The next thing you want to know
is what's the valuation. Do parties agree and is
there collateral? And I guess the only -- the way
to do that is by having a separate collateral
reporting portfolio. I understand that
supervisors need to do their jobs, too, but I
agree. I'm sort of a belt and suspenders guy.
I'm not going to rely on one thing to prevent the
system from going under. Yes, it's very important
that prudential supervisors make sure that firms
do the type of risk management they're supposed to
do but I'd also like to have the suspenders as
sort of an early warning system. And it's
positions concentration values collateral, and if
you see those getting out of whack you've got a problem.

MR. WILL: I actually think --

MS. LEONOVA: I'm sorry. On what level are you tracking collateral? You have to tie it to something. What are you tying it to?

MR. AXILROD: Oh, you're tying it to the portfolio because that's what the firms do. So, but it's just going to be the case if you have -- if you've written $80 billion in notional exposure to mortgage securities and the rest of your portfolio is, you know, $10, $20 billion, that's going to drive your collateral requirements. And it's just because the firm's position is very concentrated. So you'll be able to -- it doesn't have to all be tied together perfectly in a nice, you know, in an all singing, all dancing model base system to get some use out of that. I think at a very rough level you need the basic data. And as long as you have the basic data, some of the things are just going to pop out at people. And that's the stuff you'll get, you know, and
that's likely to be the most obvious stuff that's going to create systemic risk. If there's stuff you won't see unless you apply a very exotic, fancy model, okay, so you'll miss it. What you don't want to miss is this simple, obvious stuff that -- just some basic informational sort of throw in your face.

MR. WILL: Irina, I actually think you do need two new categories of identifier. One for the master agreement, one for the CSA.

MR. PRITCHARD: I think if it's helpful, Irina, in our exposure management service, what corresponds to the relationship most directly is an agreement. That's -- when parties set up something that they're going to resolve the dispute over the exposure on, often the relationship that they're modeling there is an agreement, some kind of collateral agreement.

MS. GOLDMAN: Yeah, I mean, I would agree with the points that you need to be able to roll up your transactions under the appropriate agreement and then apply the appropriate
collateral to that and sort of bring that altogether. And I think you also probably want the ability to then look at, you know, maybe separately the broader uncollateralized exposure in which case you might go back to the SDR to, you know, to pull that using again a common identifier to bring that picture together.

MR. MAGNUS: But the definition of an agreement in that particular instance, Raf, is just the fact that, let's say Morgan and Goldman again, using that example, have agreed that we have an agreement and we're telling you that there's an agreement there. It's an ISDA Master and you don't have any other information about that agreement.

MR. PRITCHARD: Correct, yeah. For the avoidance of that, that is true.

MR. MAGNUS: Yeah. And, you know, the minimal amount of agreement you need to know is this particular Morgan entity, this particular Goldman entity, this is the agreement name and this was the date it was executed.
MR. PRITCHARD: Yeah, I was just saying that's what it corresponds to.

MR. MAGNUS: Yes.

MR. PRITCHARD: We don't have any data about it.

MR. MAGNUS: Right. And that's the important thing. And that is how we actually pull portfolios together today, and that does work.

MR. TROZZO: You know, again, if you look at it you're going to have, you know, we're going to take, without mentioning names, say Counterparty A, Counterparty B. Their whole portfolio is going to be spread across the relative SDRs. Whether there's multiple SDRs in an asset class or one in each. But they're spread across asset classes and multiple SDRs. Okay, so first of all, the first step is you've got to find some mechanism and rule to net those. That's driven by an agreement. Okay? So there has to be some connection there. I agree with Arthur that this gets very (inaudible). It takes years to build. No doubt about that. But maybe there is
some phase-in approach or first layers.

MS. LEONOVA: Okay, what is a phase-in
approach? That's what we're trying to get out of
you.

MR. TROZZO: We'll come back. But you
have to connect those because there's been some
discussion on whether -- I think you need not only
the transactions with the SDR and some rules too
net those which are driven by the master
agreements so you're going to need something from
there. And it will then connect to a CSA which
should be housed in a separate warehouse. That's
what we all agree. You need all those pieces.

Without all those pieces, regardless of whatever
phased-in timeframe it is, you will not have your
counterparty credit exposure. You will not have a
feel of systemic risk. So you need them all. And
the phase, you know, how do you phase it in? You
know, that starts getting into some of the other
points below regarding the technology and
timeframes.

MR. WILL: I think you could have
actually parallel phased approaches for the CSAs
end also. I know I'm touching on ground I
shouldn't really go to in terms of master
agreements, but the master agreements.

MR. AXILROD: Can I just very quickly,
in terms of phasing in, I know you sort of want to
have the roadmap of where you're going but I think
to try to figure out what the end state is going
to look like now is just going to get people sort
of running around in circles. And I would say,
look, this is the most important thing is that we
need to get done in the next year, you know,
before year end or the first half of 2012. And
just fair warning, by the way, another shoe is
going to drop but we need to get some -- we need
to get some experience with this. And I would say
given, you know, the industry is just now trying
to deal with -- because they've been dealing with
SEFs and clearing and everything else. They're
just now sort of waking up to, oh, we've got all
these reporting requirements and it's a big
technical challenge. And they'll do it. I mean,
everyone's determined to do it but it's a
technical challenge to get it done. So I think
for really through the middle of 2012, if you can
focus on getting accurate trade data into the
repositories and accurate data around, you know,
collateral collected under CSAs into another
repository, that's going to be very difficult to
do but that will be a huge step forward in terms
of, you know, regulators' ability to oversee the
markets and their counterparties. And I think a
lot of good would come of that.

MR. TAYLOR: Let me ask, I think you all
are envisioning, and, you know, Bob is sitting
here on behalf of his members and a couple of the
members are here, you know, who will have to do a
lot of reporting, counterparty reporting. It
sounds as though this vision would mean we are
adding a reporting stream for the reporting
counterparty. You have to report the transaction
data, you know, that's required for the swap to an
SDR and you have to report to some collateral SDR
let's call it, collateral information. Am I right
that's what you're envisioning and can that be done?

MR. MAGNUS: Well, I'd actually take a slight step back. Again, I use the words "collateral" and "valuation repository" originally and intentionally because what you're looking at is the exposure under -- is the master agreement or any other master agreement. And first of all, not everything is collateralized under it, so the first question that you want to ask yourself if you're looking at systemic risk is what is the exposure, you know, that JP Morgan has to AIG if AIG were to default? I'll use AIG as an example. If we did SpotFX with them or we do certain transactions with them that are not covered by the CSA, they would never be in a portfolio just looking at collateral or the collateralized risk.

So that's sort of one piece of it.

So what you really want to understand is what is our exposure to the counterparty, that's question number one. And then what is the amount of exposure under the CSA and what is the value of
the collateral against it? You may additionally
want the -- what is that collateral made up of, so
you can look for other concentrations and things
like that in the collateral, which, to me, that's
a second order. Let's just get the first bit I
just said first.

The linkages is going to be some kind of
a portfolio identifier, which will link to a legal
agreement. But we have to be careful what legal
agreement we do and we want to keep it very, very
simple in its initial incarnation. But the reason
why we're recommending this is as a practical
response to what you have in the NPR where you're
asking for valuation of collateral data because
you believe you need that for your supervisory
functions. And what we're suggesting is we would
rather do it that way in a single repository where
we can give you it on a portfolio level, which is
a logical way to make sense of it, than a
transactional level where we would only be able to
do it arbitrarily and we can't provide that
information in a useful manner. So to us, we're
trying to help you get to a solution that we think
is a practical solution to achieve what you want,
but we're also trying to say yeah, but don't make
us give you information at a transactional level
that doesn't make sense.

MS. LEONOVA: Okay, going to portfolio
level data, do you propose universal reporting of
the portfolio level or only on the levels for
dealers and MSPs?

MR. MAGNUS: I'm sorry, when you say as
a swap dealer would we have to report on all our
counterparties or are you saying --

MS. LEONOVA: No, I'm saying --

MR. MAGNUS: -- everybody who plays in
the market?

MS. LEONOVA: You're here talking about
portfolio valuation, (inaudible) house, whatever
we are calling it right now. Are we talking about
universal reporting requirement of all
counterparties or are we talking about reporting
requirements imposed only on swap dealers and MSPs
who actually have large portfolio exposures --
MR. MAGNUS: I would certainly recommend that only sophisticated players would be able to do that. Many of the smaller players rely on their dealers to actually provide that information to them anyway, and to impose on that portion of the market the technical requirement that they go and provide that doesn't, to me, feel like it makes a lot of sense. I would --

MS. LEONOVA: How much market do you believe it can recover?

MR. MAGNUS: Well, we -- if you get -- if most of the deals today are between a swap dealer and other players in the marketplace, there's very little -- there's very few deals that I'm aware of between -- and maybe Bob has industry data that I don't have privilege to, between let's say in between MSPs or between MSPs and end users by using your definition.

MR. AXILROD: Outside of commodities.

MR. MAGNUS: Outside of commodities.

And again, I'm talking derivative transactions, not physical. So even commodities I would argue
that, when you talk about derivatives, they're generally between executing brokers or dealers. So I think if you had the dealers doing the reporting, you would capture the vast majority of the transactional data, most of the risk. If you discover through the trade repositories, which will have all of the transactions and all the positions that parties have, that there are players who are doing deals with each other that are not reporting to this portfolio level collateral and valuation repository, then I would suggest they might be more systemic than they've let on to. Maybe they should be registered as an MSP, and that's a different dialogue which you as a prudential regulator can go and have a conversation with that about.

MR. TAYLOR: Let me do a follow-up to that. Are you all suggesting, you know, as part of the continuation data that we wanted to get over the existence of a swap, we were asking for valuation data, are you suggesting that all of that valuation data reporting ought to go into
this collateral SDR rather than into the regular
SDR, if I may call it that? You know, unpack
that. And then you might also talk about, I mean,
you know, the statute has this setup where one
counterparty reports, it's not two. And I heard
you all saying, you know, it'd be nice to know the
view of each counterparty about what the
collateral is worth. How do we deal with that?

MR. PICKEL: Yeah.

MR. TAYLOR: Go ahead, Bob.

MR. PICKEL: Well, I was going to say
that I think, you know, realistically, you know,
once the trades are on, they're being managed, as
we've talked before, as part of a portfolio, so it
really is this portfolio level information.
Because you're going to have thousands of trades
potentially underneath the master agreement,
governed by the master agreement, and they're all
going to be, you know, fluctuating in value based
on market prices versus the price of the contract.
You're going to be looking at your exposure across
all those on a netted basis. You're going to be
calling for collateral on that basis. So, yes,
actually I think it probably is far more relevant
to be looking at that valuation at that level than
to be valuing every single contract as
contemplated.

MR. PRITCHARD: And I think, you know,
from the current industry practice, a huge amount
of the industry is currently comparing their
exposure and reconciling their values of the live
contracts. If, you know, we are piloting some
parties who want to reconcile the collateral held
in respect to that is a newer addition to that
service. But we're seeing 6 million live
contracts on a regular basis being -- having their
values reconciled centrally.

MR. WILL: I guess what would be
interesting actually is to see whether the parties
agree in terms of the events that trigger the
obligation to post collateral (inaudible). I
mean, it's something that doesn't happen in the
legal agreement area, so to speak. With confirms,
you know, you have a reconciliation agreement
between the parties, but currently you have --

there's not very much translation of the text into
data, so it's very difficult for the parties to
actually reconcile their particular views.

MR. AXILROD: I guess I would take -- I
know I'm owned by the community generally, not the
banks, but the banks, the investment managers, and
so forth and so on, and the custodians, but I'll
risk taking a somewhat contrarian view. I'm just
going to note that it's not incoherent to report
trade level valuations or position level
valuations, if you will. That's not incoherent.
You know, individual positions are valued.
There's a lot of them and, as Raf noted, a lot of
people report them anyway to various service
providers. Banks report them to their customers,
so forth, and so on.

You can't deal with collateral that way
because collateral relates only to the entire
portfolio. So let me just leave it there. It's
certainly possible to, you know, sort of report
market-to-market for each position that's in a
repository. I think there's a lot of use for it. I don't know how -- I'll let others address, you know, whether that should be phase one or phase two.

MS. LEONova: If I may follow up on your comments. So before you mentioned that when there is a difference between collateral and net exposures, then we have a problem. If you do a de-evaluation on a transactional level, what is the margin of error when we start to pull it all together that gets exposure?

MR. AXILROD: Well, I was going to say, you know, you've got the exact same problem with cleared transactions, right? Cleared transactions are valued daily, but the initial margin is collected on a portfolio basis. It's the same thing. And if you want to start looking, when you see something alarming, the first thing you're going to ask yourself -- and you can either call someone up or it could be right at your fingertips -- is, wait, there's a big disparity between the portfolio value and the amount of collateral. The
first thing you want to look at is what's making
up the portfolio and what's the value of the
pieces of the portfolio?

MR. TROZZO: I would just comment that
-- this is Pat Trozzo from Reval. If you just
look at and have data reported on the portfolio
level, yes, collateral, I agree, is posted on a
portfolio level. But then the Commission or the
users of this information would lose some data,
would lose some information. You talk about, you
know, for an example looking at potentially
concentrations. What caused this net exposure?
You might find in many cases you could have 1,000
transactions between 2 dealers and you might find
some small fraction of those make up 90 percent of
the exposure. You would lose that if you don't
have it on a trade-by-trade basis.

MR. TAYLOR: So I think I hear you all
saying leave the transaction level valuation
reporting that we asked for, add collateral
reporting to a collateral SDR.

MR. PRITCHARD: Because one opportunity
there, David, is that you can cross-check between the two. You could see some of the exposures at the transaction level and see the alleged total exposure on the relationship level.

MR. MAGNUS: I think, again, you have to look at holistically how all these different rules fit together. And the way the SDRs are being defined is they're one-sided reporting, not two-sided reporting, the way we report to you today, Raf. And so the valuation -- and there's another NPR out there on portfolio reconciliation which the industry very much supports. We've been pushing portfolio reconciliation for a while to get at the disputes that underlie that.

We volunteered and we have already delivered information to supervisors where there are disputes in our portfolio. The regulations will probably require us to do more reporting on that. Our prudential regulators are going to be checking that we are capturing that information because it's now enshrined in Basel III. So there's a whole bunch -- a panoply of things to
make sure that these portfolios are accurate and
tie-up. The question is what are you looking for?

And I want to be careful when you talk
about collateral, Peter. There's the exposure,
the net exposure, between two parties on a total
portfolio basis. There is the gross
collateralized exposure, i.e., the exposure I
would have to you, Peter, without any credit
support. And then there's the amount of
collateral supporting that agreement. And there
may be a difference because of things in the
agreement or whatnot.

The point you're making, which I think
is really the valid one, banks take risks every
day. That is what we're in the business of doing.
The question is, are we controlling those risks?
Are we managing it well?

And a certain amount of risk is okay and
you want to have the information available to
prudential regulators so they ask the right
questions. Had this type of reporting that we
have today without these repositories been in
place back a couple of years ago, the prudential
regulators would have said, my god, you have a
huge exposure to AIG, tell us more about it. And
we would have had a very interesting conversation
and they would have started learning all kinds of
interesting things that they wouldn't have been
very happy with. And they would have had much
more visibility on that long before it became a
headline.

So I'm in total support, but I'm not
sure you necessarily want that market-to-market
information on a transactional basis. I don't
think you need it. I do think we do need to do
reconciliations of portfolios, which we are doing
and the industry supports. And I think the most
important thing you need to look at from a
systemic point of view are the big numbers and use
that to drive the conversations that you have with
the entities that you're regulating.

MR. AXILROD: I guess it depends on how
quick a reaction that you want, right? I think
that, you know, the more -- if it's not too hard
to provide those marks, and it must not be because
you're providing them today, you know, I guess the
question is, that information could be valuable
because you could relate it to, you know,
concentrated positions or so forth. And I guess,
you know, whether you need it or not, it's likely
to be a building block to something else, maybe
you could do it later. All I'm saying is it's not
incoherent to ask for it at the position level.

MS. GOLDMAN: Yeah. The only thing I
would argue is, you know, to the extent that it
ends up being needed based on sort of triggering

MR. AXILROD: Yeah.

MS. GOLDMAN: -- a conversation that
that information should be deemed readily
available, you know, to the regulators upon, you
know, an inquiry, so.

MR. AXILROD: Yeah.

MR. WILL: Are you saying that they have
to come to you or you go to them with the
information?
MS. GOLDMAN: It would be them coming to us.

MR. WILL: Okay.

MR. MAGNUS: We go to our regulators every day and give them tons of reports about our positions, our large positions, and a whole bunch of other reports that our prudential regulators get on our credit exposures. So they have that information available.

MR. WILL: And I think what's interesting here is there's much talk about exposure, but what I'm particularly concerned about having been a lawyer is potential exposure. You know, what's actually going to happen just around the corner? You as regulators really need to decide what level of interest you have in that.

MR. TROZZO: Well, if I may, that's what I was trying to comment on before, defining what you mean by looking at and monitoring and measuring systemic risk. What is being put forward currently in the rules is can it lead to a measure and monitoring of systemic risks? But as
it's written right now it's limiting to current
exposure and not saying something like "potential
future exposure" or some other method. Not that
I'm necessarily saying you have to do that, but it
is -- right now you are limited to one specific
form.

MR. MAGNUS: But I would just -- again,
I'm not sure Dodd-Frank actually suggests that we
would be required to report potential exposure of
these data stores. We do calculate it, we do
provide that information to our prudential
regulators already in numerous forms and it is
reviewed again as part of our capital
calculations.

MR. AXILROD: No, Arthur, I agree. And,
again, I'm not suggesting it. All I'm just
pointing out, as currently written, you are
limited to this one form of exposure. That's all
I'm saying.

MR. PICKEL: And I would get back, I
mean, I don't know the -- what people here may
mean by "potential future exposure," that, you
know, typically in the Basel context means some estimation of how prospective market price fluctuations may affect your exposure. Mike's talking about, you know, what's embedded in the contract that given circumstances might, you know, spring to present an issue. And there I think it's important for -- again, I get back to the prudential regulators. It's important for them to understand and to grill, frankly, their regulated entity, where do you have these types of triggers? Where do they exist? Who are they -- which counterparties are they with? Where are these areas of potential concern? So that the regulator's alerted to where those things might pop up in the future.

MR. WILL: I would prefer instead of the term "grill," perhaps "learning." (Laughter) I mean, a serious point here, there is actually a lot of expertise available around this table in terms of risk management, et cetera, and I would encourage you to learn as much as you can from everybody here and also from the law firms,
frankly, because they're looking at these as users
as well.

MR. PICKEL: I mean grill. (Laughter)

MR. TAYLOR: Let me ask one more
question as quickly as we can about collateral
warehouse, and then just have to ignore the other
horse. We'll shift over to master agreements
before we're done here.

This was the last question on the list,
but in this picture of a collateral SDR that we
have begun to talk about, are you all envisioning
that it's doing anything more than having a
warehouse function with this data? And then the
question was, if there's more, does that transform
that warehouse into some sort of SRO?

MS. GOLDMAN: I would just say I think
part of the reason why we're kind of labeling it
as opposed to a "warehouse," a "repository" is
because the expectation that it's not doing a
whole lot more than just the sourcing of that --

MR. TAYLOR: Okay.

MS. GOLDMAN: -- and just the ability to
aggregate, you know, across the balances that end up being in there.

MR. TAYLOR: So you're not seeing it as an SRO.

MS. GOLDMAN: Right.

MR. TAYLOR: It's just the data's there and the regulators can't use it.

MS. GOLDMAN: Yes.

MR. AXILROD: I would say no. You know, it's there. It's going to be a big task to get it there.

MR. MAGNUS: I also think there are enough systemic and prudential regulators and, for that matter, as we do push-out under Dodd-Frank, there'll be other SROs and other bodies who will be looking at that data and have an interest in that data, who will look for concentrations and other issues that they might find in that data. So I certainly would not suggest that the repository -- and I would please encourage you to change the terminology and not use the term "warehouse" and use the term "repository." And I
would also suggest that you don't just call it "collateral." What we're really talking about is "exposure and collateral" or "valuation and collateral" or something along those lines because it is more than just collateral information that we're suggesting you put in there.

MR. TAYLOR: All right. Let's shift the discussion -- we have a bit of time left -- to the master agreement issue. Should there be a master agreement library of some sort? How should we handle -- you know, what information about master agreements do we need and how should we get it?

MR. WILL: Lots. I think it's critical that we do actually have a master agreement library. We'll come on to whether it actually should be combined with a collateral library. But the master -- credit report agreements and confirmations constitute a single agreement. And we're coming up to the Oscars, so I'm going to give you a very interesting analogy here.

In many ways, an ISDA relationship is like a Hollywood movie. It has a script, it goes
through many drafts, it gets heavily negotiated. There's a cast of characters, and there's one or more events that can place these characters into jeopardy and, of course, there are consequences that flow from these events. So let's take a look at the cast of characters. It's more than just the party executing the contract that you need to be concerned about. I characterize these guys really as the parties in the leading role.

There are characters in a supporting role that can actually trigger a default or some kind of event in relation to the master agreement. These might be a credit support provider, a guarantor, or someone providing a form of security. And also this category known as "specified entities." These are third-party entities, frequently established in different jurisdictions, whose fortunes are closely correlated to those of the contracting party itself. Now, there might be no specified entities for a particular agreement, but there can be sometimes four or five specified entities and it
can go even broader to all affiliates. So if you're a large organization it might that a default on payment of a bond will trigger some pretty significant consequences for you in terms of the master agreement.

The point to take away here is the relationship of necessity establishes a complex web of interconnectedness that can extend to entities other than the contracting parties. So if you're going to effectively monitor systemic risk, then you need to know with a great deal of specificity for any given relationship precisely who is connected to whom. Access to master agreement data will provide that particular aspect of transparency.

MR. PICKEL: I guess I'd have to say I agree with everything that Mike says and I disagree with his conclusion. I don't know -- I don't see why the need for all that information -- and it is very important information and every one of these institutions who engages in derivatives activity ought to be charged with making sure that
they have that information, they understand all those details, but I just don't see why that has to be put into some central repository. I don't know what that gains the system. I don't know whether that gains the CFTC in its oversight. But certainly, again, grill or hold people to the charge, they need to have that information and they need to be able to access it and they need to use tools that may be available to them to facilitate the access to that information. I just don't see why that leads -- the need for that leads to a central data repository of master agreements.

MR. WILL: I mean -- sorry. There's currently a proposal for an affiliate's database that's going to be accessible, I believe, on a private basis. If you maintain that affiliate's database, if everybody has to report all their affiliations, then you might actually get an inaccurate picture because you may assume that everybody is associated with a particular master agreement when, in fact, it's just a small subset
of entities that are associated with that
particular master agreement. So if you really
want to understand who's connected to who, I think
you do need to go to that level. But I do take
Bob's point about the effort involved in that.

MR. TAYLOR: Since there are two views
about that let's explore a little bit. If we need
information about master agreements, but we assume
for the moment in arguendo that it's too costly,
too burdensome to put it all into some master
agreement SDR, how do we get that information?
Does master agreement information somehow need to
flow into a regular SDR with the transaction
information or what?

MR. AXILROD: I would say no to flowing
that in. That's even harder, I think, to have it
flow in with the trade information. Because
typically today, the way trade information works
when it's submitted to a repository or a confirm
engine is that one agreement is referred to,
sometimes it a master confirmation agreement,
sometimes it's a master confirm, it's whatever the
lowest level master agreement is. That agreement actually refers then to -- you can chain then through agreements to find all of them.

But I guess I agree that, you know, when you want -- when something else is ringing an alarm bell -- you want a pretty good basic alarm system -- when something else is ringing the alarm bell, you know, the market participants should be able at a moment's notice to tell you here's how it works.

MR. PICKEL: And, again, I think that that's certainly true, you know. The question's whether that's a before the fact or an after the fact -- or not the fact, but is there a way to get that information when you need it? And do you rely on the fact that you're regulating these entities and you've got requirements for them to have the procedures in place, to understand what their exposures are, and have the details that they could access readily, quickly when you ask them for it about what their contractual arrangements are?
MS. LEONOVA: So say it's nice to have, but it's not critical.

MR. PRITCHARD: Yeah. As a repository, I think, to agree with Peter, we wouldn't see ourselves as a great channel for you to receive master agreement information. I mean, as Melissa characterized it as an exotic, it's very hard to summarize sort of the primary terms of a master agreement. You either have the detail or you have nothing at all. And as a repository it's kind of far from what we're managing.

MR. TROZZO: But I would think at least at a minimum level, you know, one of the first keys of the agreement is to decide with all this data across the various SDRs between two counterparties is it netables and not netables? What is netables? Those little first level definitions are in the agreement. So at a minimum you need that, so you have a roadmap to decide what do you -- and it's tracked against each other.

MR. MAGNUS: But, again, we're providing
the portfolio level netting --

    MR. TROZZO: Well, that's assuming if

you provide it on portfolio level.

    MR. MAGNUS: Well, but I'm going to

assume that they're going to do that because while

a master agreement may specify the netting that is

theoretically allowed in the event of bankruptcy

of a counterparty, it will only be if the

bankruptcy regime in that country allows it that

it happens. So one of the other factors, for

example, that a firm like mine uses is we have

confidence factors around both the ability to

perfect a security interest in collateral and the

netting opinions for different jurisdictions. And

when we have multijurisdictional agreements, which

we do frequently with certain types of

counterparties --

    MS. LEONOVA: Arthur, may I clarify? So

what you're saying is that your portfolio exposure

already is kind of having built-in netting

arrangements that are in (inaudible)?

    MR. MAGNUS: Yes, we've done the math
for you taking into factors that are both in the
agreement and our business judgment or our legal
judgment and the legal opinions that would allow
us to manipulate that data.

MR. TROZZO: But then --

MS. LEONOVA: And what makes you think
that you're right?

MR. MAGNUS: Well, one, we are
supervised and these calculations and whatnot are
reviewed on numerous bases. Many of the legal
opinions have actually been reviewed and are built
by the industry by law firms around the world and
are put together by ISDA. But as any of the
lawyers in this room would probably tell me,
nothing in law is absolutely certain until it gets
before a judge, which is why we look at data on
both a net and a gross basis.

MR. TAYLOR: And if you think it's
certain then, you're smoking something.

(Laughter)

MR. MAGNUS: That's also true.

MR. TROZZO: True. But if I -- again, I
think we're mixing a little two different things here.

MR. MAGNUS: Yeah.

MR. TROZZO: I agree. If the rules state that you're reporting valuations on a net portfolio basis between two counterparties, whoever the reporting counterparty is, reporting entity, then that's fine. But if you -- within the rules right now, you're reporting valuations on an individual transaction basis. So if that stands, you need to have some roadmap of deciding what you add and what you subtract. And that's the only point I'll make.

MR. WILL: I mean, there's actually an important point here is the existence of a master agreement in the CSA doesn't necessarily mean that that agreement's going to be enforceable. So if you want to add an extra layer of complexity here, you actually start to have to go and look at legal opinions, something very close to my heart.

MR. AXILROD: Yeah. I mean, you can sort of imagine a process that might work over
time. I mean, if these CSAs are standardized enough and they're enough accepted legal opinions, right, CCPs in some jurisdictions are in the same place as normal counterparties. In the U.S., they're not -- they all have to get opinions sort of for each jurisdiction that their counterparties are in. All the banks get opinions with respect to each jurisdiction that their counterparties are in. A lot of these are published. So if you get to sort of, you know, a set of standard CSA positions and standard sort of jurisdictions in which we're not too worried about closeout risk and the courts won't allow you to net, then there's something useful in understanding where, due to some relation or other, somebody isn't following that standard. It's a good client of mine; I'm not following the standard. I'm talking off the top of my head, but I think it requires a lot more information gathering even to know how you could make this useful.

MR. PICKEL: I would point out we have a very good model for this. It's the Basel process.
In the early 1990s, they recognized closeout netting under the ISDA contract -- well, not the ISDA contract, under an industry master agreement, so long as there were legal opinions obtained and updated annually. And we've provided access to those opinions to many regulators around the world; happy to do so with the CFTC and the SEC. But the regulators rely on the banks to do the analysis on the legal opinions subject to the regulators again questioning them, probing them, grilling them, and asking them why they feel in that particular circumstance, with that counterparty and that jurisdiction, they feel that that opinion is of a sufficient level of certainty that they can net. So that process has worked.

And, I think, let's reflect on the fact that whatever the situation with AIG was, this architecture is there, it works. Yes, there are questions in terms of making sure that you've got the legal opinions. And we're happy to, you know, work with the Commissions to help them understand what exists and how it has worked very well and
how it can work, you know, well under the new
structure going forward.

But I think if we start -- Mike, if we
start saying, well, you know, the agreement might
be, you know, subject to -- you got to -- it may
be subject to question until you get all these
legal opinions, that's all built in already.
Let's not suggest that there's some question as to
the enforceability of these contracts. Otherwise,
we've got a serious, serious problem here, Mike.

MR. WILL: I'm not saying that, Bob.
Believe me, I'm not saying that.

MR. PICKEL: I'm sure you're not because
you've worked too closely with us over the years.

MR. WILL: Yes. No, absolutely, and I
designed --

MR. PICKEL: But let's not suggest that
there's some doubt.

MR. WILL: No, I'm not doing that.

MR. TAYLOR: It's -- I'm trying mostly
just to ask questions, but let's put it this way:
If you assume for a minute -- and I do -- if you
look at the recordkeeping rules, basically they say you have to keep records of anything that has anything to do with your business in swaps, and you have to be able to produce them when asked -- a fair enough summary -- that would mean master agreements are available to regulators for the asking if something else says to them, gee, we need to go look at this master agreement. Does that sound satisfactory to you all as opposed to getting them all in a warehouse somewhere?

MR. MAGNUS: Yes. I would say yes and I would say we actually have those requirement today because there are other rules, at least for dealers, that require us to keep documents and whatnot for periods of time. And so we have them and we do produce them for our prudential regulators today and we could product them for you.

MR. WILL: I should say that'll be a lot of pages that you'll have to review, so you won't be able to access the data immediately. And the one thing you might want to think about is if
you're dealing with a dealer in distress, for example, and you have to come in and regulate that particular entity, you're going to be reading a lot of paper. It might be better to have the data available even if it's not reported to you in that particular circumstance.

MS. GOLDMAN: Yeah, I would just add you're reading the data and then you're interpreting the language as well in terms of, you know, what the representation means.

MR. TAYLOR: Maybe we'll send the prudential regulators.

We've bled a little bit into our Q&A time, which, again, I don't mind because it's not an active question-asking audience. But I will say if anyone's got any questions for this panel or that you'd like us to kick around, please feel free to come to a mic. There are a couple out there. Anyone?

Is there more?

MS. LEONOVA: Okay. Any final comments?

Any burning issues that you want to utter right
now? Of course, Mike, you have it. (Laughter)

MR. WILL: Actually -- I apologize. I always have to have the last word. What I would actually like to just pose is whether it actually would be a good idea to combine the collateral warehouse with the master agreement warehouse. I personally think that in certain circumstances the credit support agreement is actually deemed to be part of the master agreement, and consideration should be given to actually merging the functions together.

MR. TROZZO: I agree.

MR. MAGNUS: Again, I think there are terms that are in agreements that are very hard to quantify and put in there, and so you'll never get a complete characterization that you can standardize and put into a repository and know that if you're looking at it in the repository with the attributes that were specified, that you have the correct interpretation and there isn't something else. These are bilateral contracts between people. And yes, they do follow a
standardized template, but they are allowed to --
and they do -- contain customized terms.

And I will tell you that one of the
several functions that I do at JP Morgan is I run
our credit risk middle office and I support a lot
of our credit executives. And the moment a name
gets into distress we have a procedure that we
follow. And one of the first things we do is we
pull the master agreements and get the lawyers to
look it over to see what's in it. And we do not
rely on the (inaudible) that we've done of that
agreement because it's just too much of a risk at
that moment in time when that event occurs to rely
on any interpretation that might have been done
three years ago.

So I think that the right approach --
and certainly at the onset of this so as not to
create a burden, and we have enough things that we
have to do -- is to focus on that which we have to
do, get the high-level information to sound the
alarm bells as a first step. And we can come back
and we can explore with you, you know, when we're
all a little bit more calm and not writing -- I forget how many rules are being written, and we're implementing those rules. We can then go back and calmly figure out what we want to do.

I also think, in a couple years, the landscape is going to look very different than it does today. There'll be a lot more in the clearing sector, which will be governed by much more standardized agreements because of the very nature of clearing than the bespoke agreement. And that might yield different risks or different things that we might think are important. And so we shouldn't jump the gun and do that.

I think we definitely have to recognize that master agreements exist; that's how we define our portfolios. But beyond the existence of the master agreement, I think you need to rely on, in a crisis, getting those master agreements and require, you know, the prudential regulator firms will look at it. And there are technologies available that, theoretically, look at this stuff and get it in different ways. But I still think
nothing is going to change that in a crisis we're
going to have a lawyer review the agreement.

MR. TAYLOR: If nobody else has anything
substantive, I do have one thing I'd like to close
with, and I address this -- there are people in
the audience who are on panels and -- all of you
in the audience for that matter, but I
particularly address it to the panel. We've had
this conversation with a few people during the
breaks, but I just thought I would emphasize it.
It seems so obvious to us, but you all may not
think of it this way.

The comment period for our rule closes
on February 7, and the effect legally is that
after February 7 we go behind a curtain and we
can't talk to you anymore. So if there is any
input that you would like to give us beyond what
you've said here today, please send us comment
letters. I mean, feel free. I mean, I'm asking
for an increase in our workload, but it's going to
actually be very valuable. I mean, no matter how
valuable it is, after February 7 we can't get it,
so I encourage you. You have positive/negative comments about, you know, any of the issues we've talked about today, please do send things in.

MR. WILL: Well, I, for one, now know who the Wizard of Oz is.

MR. TAYLOR: I'm sorry?

MR. WILL: I, for one, now know who the Wizard of Oz is.

MR. TAYLOR: Pay no attention to the man behind the curtain, yes.

MS. LEONOVA: Again, I thank you very much for making this trip to Washington, D.C., in such horrific weather. We greatly appreciate your time and look forward to hearing from you again.

MR. TAYLOR: Thank you all.

(Whereupon, at 4:55 p.m., the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

DISTRICT OF COLUMBIA

I, Christine Allen, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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