Version 20101108rev3

Outline of Trade Repository Functionality Being Sought by Members of the OTC Derivatives Regulators' Forum

Preface

This document ("the TR Functionality Outline") provides an outline of statements on Trade Repository ("TR") functionality sought by members of the OTC Derivatives Regulators' Forum ("ODRF") in support of market transparency goals. Its purpose is to serve as a reference, documenting general TR attributes that the ODRF considers necessary to support the market transparency and data availability objectives outlined in the consultative report of CPSS-IOSCO "Considerations for Trade Repositories in OTC Derivatives Markets" ("the CPSS-IOSCO Considerations") as well as the regulatory priorities of ODRF members.[1,2] Furthermore, as CPSS and IOSCO prepare a response to the trade repository-related recommendations of the OTC Derivatives Working Group Report to the Financial Stability Board ("the FSB Report"), the TR Functionality Outline and accompanying documentation may serve as a useful reference and inform CPSS and IOSCO where common perspectives on TRs across different regulators have already been articulated.[3]

The TR Functionality Outline in its present form should be regarded as a general, indicative reference that captures basic features of TRs that are being sought by regulators. It should not be viewed as a definitive or exhaustive set of formal requirements for the systems implementation of a TR, but rather should serve as a set of general guidelines for current and prospective providers of TR services in a manner that is consistent with the objectives set forth in the CPSS-IOSCO Considerations and the CPSS-IOSCO work proceeding from the FSB Report recommendations. The members of the ODRF recognise that there is a need for regulators more fully to articulate the objectives and rationales underlying its statements on functionality. Therefore it is expected that future iterations of the TR Functionality Outline will evolve into more systematic documentation that will refine, clarify, and rationalise the statements on functionality as an aid to implementers of TRs. The TR Functionality Outline and associated documentation will, from time to time, be augmented or otherwise modified to continue to meet the collective regulatory objectives of ODRF members.

It is recognised that TRs serving the OTC derivative markets are in varying stages of development. Consequently, it should be emphasised that in aggregate, the statements described below are intended to reflect views on the desirable long-run functionality of TRs in general and do not imply immediate implementation requirements for any particular TR. The statements below also approximate the relative utility of TR features by affixing to some a "PRIORITY" label. In general, the PRIORITY label indicates features that would be considered most useful (but not necessarily required) in an initial implementation of a TR while unlabelled statements indicate either general TR attributes or features that address stated longer-run needs of some regulators but for various reasons may not be practicable at this time.[4] In general, current and prospective TRs for the OTC derivatives markets should consider the statements in the design and implementation of their services, while recognising that the statements may vary in their applicability to a particular TR.

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[1] qq.v. p.7: "A TR should support market transparency by making data available to relevant authorities and the public in line with their respective information needs" and p.8: "The type and granularity of trade information that is recorded and reported to relevant authorities by a TR should conform to established regulatory expectations and industry practices".

[2] Available at: http://www.bis.org/press/p100512.htm and http://www.iosco.org/news/pdf/IOSCONEWS182.pdf

[3] Available at: http://www.financialstabilityboard.org/publications/r_101025.pdf

[4] Future iterations of the TR Functionality Outline will employ clearer statements on the relative priorities of regulators in desired TR functionality.

Statements

Regulatory interests in TR functionality[5] include the following:

Types of TR Data

- A TR should serve as a centralised source for detailed transaction state ("stock") data, comprising participants' OTC derivatives transaction-level information. [PRIORITY]
- A TR should have the capability to provide aggregate transaction event ("flow") data for purposes of market-wide analysis of transaction volumes. [PRIORITY]
- Some regulators consider it desirable for TRs to act as centralised sources of discrete transaction event ("flow") data. In particular, there is interest in employing this functionality for purposes of market surveillance in the credit, equity, and commodities asset classes.

Coverage of TR data

- A TR should, to the extent possible, strive to maximise the number and range of participants able to submit transaction data into the TR, including end-user counterparties to OTC derivatives transactions. The TR platform should employ interfaces to accommodate a wide range of technological capability amongst its direct participants. [PRIORITY]
- TRs should retain historical data for an indefinite period. [PRIORITY]
- A TR should be designed to maintain transaction information for both centrally cleared and non-centrally cleared trades and should implement facilities to accept transaction information from relevant market participants and infrastructures.[6]

Quality of TR Transaction Data

- A TR should maximise the number of individual and authoritative[7] transaction records stored as paired trade sides. The TR should source such paired trade sides, where possible, from one or more third-party providers of matching and confirmation platforms that are currently capable of providing high-quality paired transaction data in the market. For transactions that are not paired externally, a TR should develop the capability to match or otherwise reconcile the component trade sides within the TR. [PRIORITY]
- A TR should clearly identify the source for each trade side and the pairing method (if any) for each transaction record in order to identify the level of quality of that transaction record. User documentation should provide clear and detailed descriptions of the pairing methods employed. [PRIORITY]

[5] These expectations are distinct from the 2010 industry deliverables and commitments to the OTC Derivatives Supervisors' Group for the equity and rates TRs.

[6] It has been recognised that there may be implementation costs related to such coverage. This statement does not presuppose any particular market structure for the provision of TR services.

[7] An "authoritative" transaction record is not necessarily a "legal" transaction record, but is a record which both parties to the transaction have independently affirmed to the TR or other third-party system to be accurate. If a transaction record is "authoritative" in this sense, it meets a standard of quality and reliability not achieved through single-sided reporting.

Frequency of TR Data

- To the extent possible, transaction state ("stock") data available from TRs should be updated at least once per day, such that all transaction records can be considered reliable as of the previous day. [PRIORITY]
- Transaction state ("stock") data available from TRs should be updated in as timely a manner as practicable.

Access to TR Data

- A TR should employ regulatory data entitlement and permissioning[8] models that, within the scope of existing laws, efficiently serve regulatory information needs and allow the appropriate regulators to carry out their respective mandates. [PRIORITY]
- A TR should have the capability to provide regulators with multiple means of obtaining data, including: a) verbal and written *ad hoc* requests[9]; b) periodic reporting; and c) on-line facilities to perform independent, direct, *ad hoc* queries based on flexible criteria, subject to appropriate entitlements and permissioning. [PRIORITY]
- A TR should publish on a frequent basis various aggregate statistics that provide both longitudinal and cross-sectional detail[10] on the state ("stock") and event ("flow") data it maintains. [PRIORITY]
- A TR should make market data available to regulators and the public in file formats that are readily accessible and facilitate analysis, including "csv" and "XML" file formats. [PRIORITY]
- A TR should accompany both its regulatory and public data reporting with adequate user documentation that clearly defines terms and concepts required to interpret the data accurately. [PRIORITY]

TR Data Model and Data Elements[11]

- A TR should employ open industry standards for data modelling of OTC derivative products, processes, and transactions. [PRIORITY]
- A TR's data representations of OTC derivative products and transactions should be of sufficient scope, detail, and rigour to allow the TR or a third-party service provider to employ the data elements as valuation model inputs, in order to calculate independent benchmark valuations of transactions and positions. [PRIORITY]
- A TR's data should represent the counterparties of the transaction records it maintains as precise legal entities, enriched with further counterparty information including affiliate relationships, sector and geography. Affiliate relationship data should enable the analysis of

[8] The term "entitlement" refers to the rules or guidelines used to determine whether a given user should have access to a given set of data; the term "permissioning" refers to the technological and operational implementations the TR employs to control access in accordance with the defined entitlements.

[9] Such *ad hoc* requests should be formally documented and maintained by the TR for use as an audit trail.

[10] "Longitudinal" data allow analysis through time, while "cross-sectional" data allow comparative analysis at a given point in time.

[11] A "data model" is an abstraction that describes how data are represented and function in an information system. A data model formally defines data elements and relationships among data elements in the form of data structures. A "data element" is an atomic unit of information in a data structure with a precise name, definition, and rules for valid values.

aggregated transaction records in terms of netting, guaranty, and credit support arrangements. A TR's development of entity data representation should, to the extent possible, coordinate with other TRs and/or industry bodies to develop and/or employ internationally recognised data standards for this functionality, including the use of standardised reference data and internationally recognised registration authorities.[PRIORITY]

- A TR should have the capability to incorporate timely market pricing data into transaction records, in state records, as applicable, in order to calculate both market and counterparty credit exposures, and in event records, as applicable, in order to record the occurrence of discrete economic transactions. Such data may be provided by a variety of external sources, including third-party vendors and/or TR participants.
- A TR should employ a flexible data design that does not tightly couple particular TR data applications (e.g. monitoring, analysis, or compliance applications) with the core recordkeeping function of the TR.