



COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS



BANK FOR INTERNATIONAL SETTLEMENTS

IOSCO BN03-11

24 August 2011

Report on OTC derivatives data reporting and aggregation requirements

Cover note to the consultative report

By centralising the collection, storage, and dissemination of OTC derivatives data, trade repositories (TRs) can play an important role in providing information to authorities and to the public that could serve to promote financial stability, assist in the detection and prevention of market abuse, and enhance the transparency of the market.

The report on *OTC derivatives data reporting and aggregation requirements* addresses recommendation 19 in the October 2010 report of the FSB, “*Implementing OTC Derivatives Market Reforms*”, that by end-2011 CPSS and IOSCO, in consultation with authorities and with the ODRF, should develop both for market participants reporting to trade repositories and for trade repositories reporting to the public and to regulators:

- (i) minimum data reporting requirements and standardised formats, and
- (ii) the methodology and mechanism for the aggregation of data on a global basis.

The CPSS and IOSCO request comments on the consultative report by **23 September 2011**.¹ After the consultation period, the CPSS and IOSCO will review all comments received and publish a final report by end 2011. While the CPSS and IOSCO request comments on the entire report, highlighted below are a few questions for which comments would be particularly welcome, as part of the consultation.

Data Gaps

The report describes various types of information that will be helpful for assessing systemic risk and financial stability but that is not presently supported by TRs, which have been primarily designed as transaction-level databases. These types of information include: information on bilateral portfolios of OTC derivatives transactions, including information on the exposures, netting arrangements and collateralisation associated with these portfolios; the

¹ Comments should be submitted by e-mail to both the CPSS secretariat (cpss@bis.org) and the IOSCO secretariat (OTC-Data-Report@iosco.org). The comments will be published on the websites of the Bank for International Settlements and IOSCO unless commenters have requested otherwise.

market values of open transactions and information on collateral assets that are applied to collateralised OTC derivatives portfolios.

To address these data gaps, the report recommends further work to explore viable options for bridging them. The CPSS and IOSCO would welcome comments on the prospective scope and shape of this work, including perspectives on the following questions:

- What are the possible solutions for providing information on each of the types of information that have been described as gaps, whether in the next generation of trade repositories' design or by other means (eg systematic tracking of credit support annexes)? What would be the main business, operational, and technological challenges entailed by providing these types of data?
- Please comment on these questions with respect to the types of OTC derivatives information that have been cited by this report as useful but presently unavailable from trade repositories:
 - current exposure, netting, and collateralisation information on bilateral portfolios of OTC derivatives transactions;
 - current market values of individual open OTC derivatives transactions; and
 - information on collateral assets that are applied to collateralised OTC derivatives portfolios, including the valuation and disposition of these collateral assets.

Support for development and implementation of an international legal identifier

The report notes that a system of legal entity identifiers (“LEIs”) would be an essential tool for aggregation of OTC derivatives data, and recommends the expeditious development and implementation of a standard LEI. The report further recommends that LEIs follow a set of basic principles that address key functions or attributes of an LEI system needed to allow the LEI to support the data aggregation purposes discussed in the report: Uniqueness, Neutrality, Reliability, Open Source and Extensibility. The report notes that, to promote harmonisation of legal requirements for LEI use across different jurisdictions as phased implementation occurs, national authorities issuing or considering legislation or regulations involving LEIs should take these basic principles into account. The Task Force also addresses fundamental aspects of the governance of the LEI system.

The report notes that establishment of a universal LEI would require an international approach to implementation, and that further international consultation would be beneficial in this regard.

On 18 July 2011, the FSB welcomed the progress of financial regulators and industry to establish a single global system for uniquely identifying parties to a financial transaction, and agreed to arrange a workshop in the autumn to discuss the issues that need to be addressed and how best to coordinate work to take this forward.

The CPSS and IOSCO would welcome comments concerning (a) the recommendation for expeditious establishment and implementation of an LEI, (b) the basic principles for the LEI recommended in the report, and (c) the appropriate governance of the LEI system.

Development of a standard international product classification system

The report recommends that CPSS-IOSCO or the FSB make a public statement calling for timely industry-led development, in consultation with authorities, of a standard product classification system that can be used as a common basis for classifying and describing OTC derivatives products. The report also recommends further consultation and coordination by financial and data experts, drawn from both authorities and industry, on a timely basis, concerning this work. The CPSS and IOSCO would welcome comments on how a standard product classification system might best be developed, and how such work and such further consultation and coordination may best be carried forward. For example, commenters could address questions such as those below, among others:

- What would be the optimal arrangements for developing a “standard product classification system”, taking due consideration of the OTC derivatives landscape, that consists of a broad and heterogeneous set of instruments involving a range of asset classes, referenced underliers and varying communities of users and intermediaries?
- Who would be the appropriate parties to be involved in the industry initiative, in order to reach a broad, international industry consensus concerning OTC derivatives product identification and classification in a manner that is fair, balanced, open, and transparent, and considers the interests of all stakeholders?
- What are the prospects for developing standards for generic product attributes that are common to all OTC derivatives instruments, regardless of asset class?