IOSCO-CPSS. Trade repositories: OTC derivatives data reporting and aggregation. November 2011.

IOSCO formed, in October 2010, the Task Force on OTC derivatives to work jointly with CPSS who have published, on the 24th of August, a consultation report to develop reporting and aggregation standards on OTC derivative transactions.
The report underlines the importance of the role that Trade Repositories (TR) are expected to play in collecting, storing and disseminating adequate data using electronic and centralized data bases for OTC derivative transactions so that few moments after the transaction has finished it could be known by the authorities and the public. The report describes the minimum data reporting requirements and the methodology and mechanisms for aggregation of data.

Minimum data reporting requirements; authorities access to data.

Data transactions must be sent to TR; there can be three approaches to specify the content of data that needs to be reported: a) functional approach, consists of a non-exhaustive list of broad functional data categories (operational data, product information, transaction economics, valuation data, counterparty information, underlier information, event data) allow more flexibility but difficult data aggregation; b) data field approach, in which standardized fields are specified explicitly, although occasionally it can only be specified a minimum standardized data fields taking in to account the great variety of OTC derivative products; and c) combined approach, in which there are functional data categories in which it is reported specified minimum standardized data fields. In any case, as the derivatives are often active over long periods of time, data could be referred to the derivative life cycle or to the inception followed by periodic full update of the current state of the contract. Some additional information (useful for assessing systemic risk and financial stability) such as valuation data, bilateral portfolio level data and collateralization, are presently beyond what should be reported to TR.

TRs should implement operational methods in order to provide effective an practical access to the different authorities, not only for the routine access through a secure internet connection to necessary data that allows them to comply with their responsibilities but also to obtain specific data that could be requested ad hoc from them; authorities should develop procedures to avoid duplicative or conflicting requests from TRs. Several procedures are proposed: direct and regular access to data building a dedicate web through which an authority could pull specific data or active distribution (email etc.) of a common set of data to relevant authorities by type or function, on a regular basis.

TRs should provide reporting entities and counterparties with specific access to their own data (verification or amending information concerning contracts they have concluded if needed) and with general data disseminated to the public; this access should be consistent with confidentiality requirements and with the principles that a participant should only have access to information for which it has a legitimate interest.

The information publicly disseminated by TRs could include state data and other circumstances (event data) such as trade volumes and pricing information. The disclosure of information by TRs could be done in an aggregated way or, alternatively, some jurisdictions may decide to require a TR to publicly disseminate information in a more granular form. Aggregated information should, anyway, allow to assess the market activity (information on open positions etc.) and to measure market concentration.

Methodology and mechanisms for aggregation of data.

Data aggregation is the organization of data for a particular purpose base don one or more criteria; the methods of aggregation could be functional (intend to produce and output that assists authorities in carrying out a mandate) or operational (use the mechanical aggregation –standardized data fields- for TR data). Functional methods imply the use of one or more operational methods of aggregation.

Global and effective derivative OTC data aggregation across multiple TRs in different jurisdictions requires international cooperation. The document proposes three different tools:

a) Legal Entity Identifier (LEI), is a standard reference code that would provide a universal method of identifying entities (financial and non-financial) that are counterparties to OTC derivatives transactions, or that issue securities or other assets that are the subject of financial transactions. As alternative to the universal LEI, regional or national LEIs are proposed or the continuation of the current mix of partial proprietary identifiers. In order to promote adequately a coordinated and international approach, it is recommended the development by an international organism of standards for the creation of the LEIs. They should have and acceptable governance for the financial authorities, be capable of complying with the data protection and confidentiality rules and with the following principles: uniqueness, neutrality, reliability, open source and extensibility.

b) Product Classification System, is an International Product Classification System that should allow the surveillance of risk exposures –or positions exposures- classified in different groups or types of products. This would require prior development of a uniform, robust system of OTC derivatives classification analogous to a dictionary of terms to achieve a semantic and descriptive standardization of products and transactions data and of the product representation that result in a flexible system for categorizing the majority of OTC derivative transactions, including cash instruments. The non-standardized OTC derivatives are a challenge to obtain a universal product classification.

c) Trade Identifier, is a unique trade identifier – that could be assigned by the TRs- created at the time and OTC transaction is executed and that is use to identify that particular transaction throughout its existence; it would assist authorities in avoiding the double-counting of a trade reported to two different TRs.

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