

Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch – consultative report

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General comments on the report

TransAlta Corporation (“TransAlta”) and its affiliates hereby respectfully submit comments on the IOSCO consultative report entitled “Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch” published by the Committee on Payments and Market Infrastructures (the “Committee”) on June 27, 2017, which develop guidance regarding the definition, format and usage of key OTC derivatives data elements reported to TRs. TransAlta appreciates this opportunity to comment on the consultative report and looks forward to the Committee considering our comments.

TransAlta's interest in commenting on this IOSCO report is attributable to the ongoing rule-making efforts of the Canadian Securities Administrators ("CSA"). It is expected that IOSCO's harmonisation work will feed into Canadian derivative regulations, in particular the determination of notional amounts for the purposes of certain thresholds including trade reporting and clearing exclusions and potentially, a derivative dealer de minimis registration exception. Because we have an interest in clear, well-defined and appropriate regulation, TransAlta's comments are isolated to sections 2.53-2.54 that deal with the definition of notional amount.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

2.2 Collateral portfolio code

Q1: With reference to the alternatives proposed to capture information on portfolio code(s) (Section 2.2):

- (a) In your view, how prevalent is the situation in which different transactions concluded under the same Master Agreement are associated with different CSAs (for initial margin posted, initial margin received and variation margin)?

- (b) The definition proposed in Alternative 1 is based on the assumption that, in the event of default, the entirety of the collateral provided under the given Master Agreement would be used to cover the loss of the non-defaulting counterparty, whether or not separate CSAs (for initial margin posted, initial margin received and variation margin) might be linked to that Master Agreement and whether or not all the transactions concluded under that Master Agreement would be associated with each of these CSAs. Is this assumption correct? If not, please clarify how the respective obligations would be resolved in the case of default. Please provide examples.

(c) Are the differences in authorities' use of the two alternatives clearly illustrated in Table 2?

(d) Which of the proposed harmonisation alternatives should be supported and why?

Other comments on the data element "Collateral portfolio code":

2.3 Portfolio containing non-reportable component

Comments on the data element "Portfolio containing non-reportable component":

2.4–2.28 Data elements related to margins

Q2: The purpose of the data element "Initial margin settlement timing" (Section 2.10) is to allow authorities to better understand the difference between "Initial margin required to be posted by the reporting counterparty" (Section 2.17) and the "Initial margin posted by the reporting counterparty" (Section 2.5) as this difference may be due to the timing of when the required margin is determined and when the margin is posted. In the absence of information on the margin settlement timing, the difference in the margin required and margin posted amounts could be interpreted as over- or under-collateralisation. Information on the settlement timing of margin collected would serve the same purpose for global aggregation of initial margin collected (Sections 2.8 and 2.19).

- (a) Are there challenges linked to the data element "Initial margin settlement timing" as defined above? Is there an alternative, more effective, way to represent this information, such as the date on which the initial margin posted (or collected) has been settled?

- (b) How prevalent is the existence of different settlement timings (T+0, T+1, T+2, T+3) within a given jurisdiction? Would the settlement timing for the initial margin posted differ from the one for initial margins collected?

Other comments on the data elements related to margins:

2.29 Indicator of intraday variation margin calls

Comments on the data element "Indicator of intraday variation margin calls":

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

2.31–2.35 Data elements related to counterparty rating trigger

Q3: With reference to the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.34):

- (a) For each alternative of the data element "Counterparty rating trigger indicator", do definitions and allowable values accurately reflect provisions contained in collateral agreements or master agreements covering OTC derivative transactions to protect parties from counterparty credit deterioration? How prevalent currently are counterparty collateral rating triggers or comparable automatic-termination provisions in collateral agreements or master agreements? How, if at all, have recent changes to market practices affected the

prevalence or the form of counterparty collateral rating triggers or comparable automatic termination provisions?

- (b) Are the advantages and disadvantages of the proposed harmonisation alternatives of the data element "Counterparty rating trigger indicator" appropriately defined? If not, which aspects should be revised and how? Which of the proposed harmonisation alternatives should be supported and why?

Q4: With reference to the alternatives proposed for the data element "Counterparty rating threshold" (Section 2.32):

- (a) Are the advantages and disadvantages of the proposed harmonisation alternatives appropriately defined? If not, which aspects should be revised and how?

- (b) Which of the proposed harmonisation alternatives should be supported and why?

Q5: The definition of the data element "Incremental collateral required" (Section 2.33) relies on the assumption that the effects of multiple-notch downgrades are roughly linear. Are there instances in which the effects increase more than linearly with the number of notches in a hypothetical downgrade? If so, how could multiple scenarios be encompassed in the definition?

Other comments on the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.35):

2.36 Clearing obligation in the jurisdiction of the reporting counterparty

Comments on the data element "Clearing obligation in the jurisdiction of the reporting counterparty":

2.37–2.41 Data elements related to “Price”

Q6: With reference to the data element “Price” (Section 2.37), are there OTC derivative transactions products where the price or a concept of price is not captured under the “Price” data element or any other data element including “Fixed rate”, “Spread”, “Strike price”, “Option premium” and “Other payment type (upfront payment)”? If so, please provide detailed examples of those products. Would the industry benefit from additional guidance for the “price” data element?

Q7: With reference to the data element “Price notation” (Section 2.40), is it clear and unambiguous which price notation (amount or percentage) should be applicable to each price? If not, which ones? Are there additional price notations that should be allowed? If so, which ones? Would the industry rather benefit from additional guidance for the “price notation” data element?

Q8: With reference to the data element "Price unit of measure" (Section 2.41):

- (a) Can commodity derivatives be negotiated in different unit of measures for the price and quantity? If so, would industry support two separate data elements for the (1) Price unit of measure and (2) Quantity unit of measure?

- (b) The list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.
- (i) Are the values useful for reporting the Quantity Unit of Measure and the Price Unity of Measure?
 - (ii) If not, which ones are less useful and why?
 - (iii) Are there other values that should be added? Which ones, and why?
 - (iv) Are there duplicates or similar values that should be removed?

Other comments on the data element "Price", "Price schedules", "Price currency", "Price notation" and "Price unit of measure":

2.42–2.50 Data elements related to "Fixed rate", "Strike price" and "Option premium"

Q9: With reference to the data element "Spread notation" (Section 2.45), is it clear and unambiguous which notation (amount or percentage) should be applicable to each spread? If not, which ones? Are there additional spread notations that should be allowed? If so, which ones? Would the industry benefit from additional guidance for the "spread notation" data element?

Other comments on the data element "Fixed rate", "Spread", "Spread currency", "Spread notation", "Strike price", "Strike price currency", "Strike price schedules", "Option premium", "Option premium payment date":

2.51–2.52 Data elements related to "Exchange rate"

Comments on the data element "Exchange rate" and "Exchange rate basis":

2.53–2.54 Notional amount and Notional amount schedules

Q10: With reference to the data element "Notional amount" (Section 2.53), are there particular cases where the notional amount may not always be known when a new transaction is reported and may be updated later? If so, which ones?

Other comments on the data element "Notional amount" and "Notional amount schedules":

There are six definitions in 2.53 "Notional amount" that deal with commodity products, two of which should be reformulated by the Committee. The standards that TransAlta expected from these definitions include relevance to industry practice, consistency between definitions, and transparency. Relevance to industry practice is important because it allows for values easily calculated by risk management systems and understood by practitioners to be used. Consistency between definitions means exposures created by different trade types do not bias total notional amounts for a single entity or in comparisons between entities. This is especially important because dealer registration exception rules may not differentiate between hedging, trading and dealing. Transparency allows local regulators to identify discrepancies in notional amounts (individual or aggregated) simply by reviewing trade reported data.

For more information about industry practice regarding notional amount, please see Coalition Comments on Notional Amount Calculation Methodology (September 2012): http://www.ngsa.org/download/filings_testimony/cftc_filings/17%20-%20Coalition%20Comments%20on%20Notional%20Amount%20Calculation%20Methodology_Final%209.20.12.pdf. Additionally, CFTC staff provided confirmation of the appropriateness of a price spread definition for basis swaps in their Staff Response to FAQs About Swap Entities (October 2012): http://www.cftc.gov/ido/groups/public/@newsroom/documents/file/swapentities_faq_final.pdf.

The Committee's definition for "Commodity options" is the "Product of the strike price and the total notional quantity". This is not in line with industry practice (see Coalition comments above) and would result in dramatic changes in notional amount depending on the moneyness of the option traded. For example, out-of-the-money options are usually transacted with large notional quantities but have strikes set far apart from the current forward price of the underlying. The Committee's definition could result in either an artificially small or an artificially large notional amount depending on strike. An alternate definition would be the "Product of the premium and the total notional quantity". This would be relevant to industry practice because it references a defined payment for the option. An example may illustrate the practical difficulties with the Committee's proposed definition. If WTI crude oil is trading \$50/barrel, and two options are traded, 1) a \$80 strike and 2) a \$20 strike, the hypothetical option prices (premium) may be roughly the same at \$0.10/barrel indicating the market is pricing the probability of reaching either price level equally. For a company managing their oil risk with options, aggregation of the notional amounts (in comparison to a dealer registration threshold) could lead to a 4X greater chance of being categorized as a derivatives dealer when using \$80 options versus \$20, despite the trades having the same economic profile. It also treats producers and buyers unfairly, if buyers desire hedge protection using \$80 options and producers desire hedge protection using \$20 options.

The Committee's definition for "Commodity basis swaps" is the "Product of the last available spot price at the time of the trade of the underlying asset of the leg with no spread and the total notional quantity of the leg with no spread". This definition suffers from a lack of relevance to industry standard (see Coalition Comments and CFTC Staff response above), inconsistency with the other definitions proposed, and a lack of transparency. The use of spot price makes it difficult to calculate, and it also varies from the other definitions which use a primary economic term from the consummated trade. Finally, spot price is not trade reported therefore transparency is lost. An alternate definition would be the "Product of the traded basis spread (between the two locations) and the total notional quantity". An example may illustrate the practical difficulties with the Committee's proposed definition. On August 21, 2008, the basis between Henry Hub and AECO natural gas was -\$1.33/mmBtu, and on August 21, 2017, the basis spread was roughly the same at -\$1.39/mmBtu. However, the AECO spot price on the same dates in 2008 was \$7.52 and in 2017 was \$1.43. For a company managing their gas risk with basis swaps at these prices, aggregation of the notional amounts (in comparison to a dealer registration threshold) could lead to a 5X greater chance of being categorized as a derivatives dealer in 2008 vs. 2013, despite the trades having the same economic profile.

2.55–2.57 Data elements related to “Total notional quantity”

Comments on the data element “Notional quantity schedules”, “Total notional quantity” and “Quantity unit of measure”:

2.58–2.63 Data elements related to “Other payments”

Comments on the data elements “Other payment amount”, “Other payment type”, “Other payment currency”, “Other payment date”, “Other payment payer”, “Other payment receiver”:

2.64–2.71 Data elements related to “Packages”

Q11: With reference to the data element “Package trade price” (Section 2.66), could it be agreed that two possible situations may arise: (i) a package price does exist because all the transactions that represent individual components of the package are priced jointly, or (ii) a package price is not available because all the transactions that represent individual components of the package are priced individually? Is more clarity needed regarding the reporting of “Package trade price” and prices of individual components?

Other comments on the data elements “Package ID”, “Package trade price”, “Package containing non-reportable components”, “Package trade price currency”, “Package trade price notation”, “Package trade spread”, “Package trade spread currency” and “Package trade spread notation”:

2.72 Prior UTI

Q12: With reference to the data element “Prior UTI” (Section 2.74), how is “Prior UTI” represented when clearing and allocation happen at the same point in time? And how is “Prior UTI” represented when clearing

and compression happen at the same point in time, as a single event? Do such cases of clearing and compression and clearing and allocation as a single event happen frequently?

Other comments on the data element "Prior UTI":

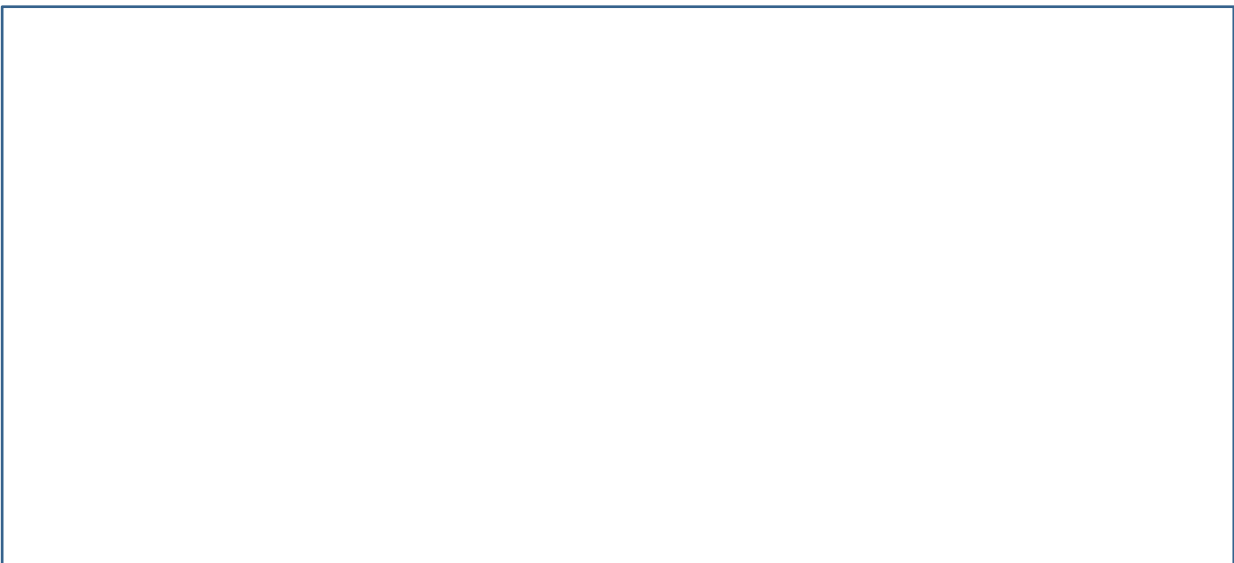
2.73–2.77 Data elements related to "Custom baskets"

Q13: With reference to the data element "Basket constituents unit of measure" (Section 2.74) the list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.

- (a) Are the values useful for reporting the "Basket constituents unit of measure"? If not, which ones are less useful and why?

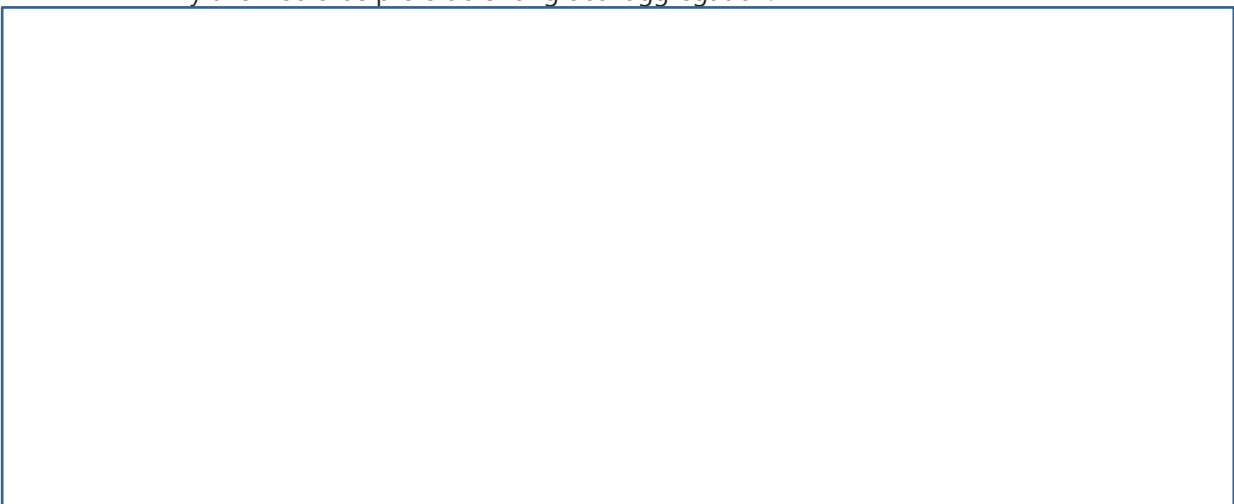


(b) Are there other values that should be added? Which ones, and why?



Q14: With reference to the data element “Custom basket code” (section 2.75)

(a) would it be preferable to separate the information on the LEI of the basket issuer and the unique alphanumeric code assigned by such issuer to the custom basket? If so, please explain why this would be preferable for global aggregation.



- (b) are there types of custom basket for which the "issuer of the custom basket" is not clear? If so, please provide detailed examples of those custom baskets. Would the industry benefit from additional guidance for the term "issuer" in the "Custom basket code" data element?

- (c) are 52 alphanumeric characters after the LEI of the basket issuer enough?

Other comments on the data elements related to custom baskets:

Other comments