Dear Sir

My comments on the TR for OTC Derivatives are as follows:

1. It is a good initiative for creating further transparency in the market, since the exposures of the OTC market do come to the main market for settlement hence it is desirable to understand and regulate the overall exposures.
2. it is important that the TR is accepted by all the regulators in the country that regulate money, currencies and equity markets. For eg. In India margin trading is regulated by SEBI and entities that do margin trading ie. NBFC are regulated by RBI. These results in a regulatory arbitrage since the NBFC do not follow the rules mandated by SEBI for the margin funding activity. This deprives the market of important information on leveraged exposures. Similarly Banks sell OTC forex derivatives to their corporate clients, though we now have a currency exchange, these trades do not come on the exchange. Hence unless all regulators ie. RBI, SEBI,FMC etc are part of this legislation the desired objective will not be achieved.
3. I had raised the issue of reporting of exposures to public at Basel meeting of IOSCO. The feeling amongst the participants was that there will be information overload if all trades are reported. Hence the regulations may provide for some aggregation on instrument level while disseminating information to the public. The information may be aggregated at participant level while giving information to Clearing Corporations since they are concerned with participant level risk, and cross margining across markets, products and segments. The information should be tailored to suit the relevance of information to each participant.
4. Preferable only one TR should be recommended for each country which is jointly promoted by all the regulators. This will meet the objective of aggregation and optimum utilization of resources.
5. The entity should preferably be promoted as a public utility and not as a commercial for profit only entity. The concept paper does talk about reasonableness of cost. However, if the entity is for profit only then there is a risk of commercially making the information available selectively for a price, since the entity treats the information as a saleable commodity.
6. Once the TR is set up there should be a mandatory obligation on the market participants to report the OTC trades also. If all regulators are not involved in setting up the TR then there is a risk of some participants / some trades getting left out of the system. This risk is especially present when complicated OTC products are designed with combination of commodities, equities currencies etc as underling.
7. The concern for data security is welcome and operational risk has been well addressed by the concept paper.

Deena Mehta
Managing Director
Asit C Mehta Investment Intermediates Ltd
Mumbai