

CPSS - IOSCO

COMMENTS

Report on OTC derivatives data reporting and aggregation requirements
Consultative Report, August 2011

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Dear Committee members,

The Desjardins chair in sustainable management and the Research group in applied finance (Grefa) welcome the opportunity presented by the CPSS and the IOSCO to formulate and submit comments on their consultative report entitled : « Report on OTC derivatives data reporting and aggregation requirements ».

Our comments are structured into four parts. An introduction to the comments is first presented. Second, general comments are formulated. Third, more specific comments are formulated on the CPSS-IOSCO Cover note to the consultative report (24 August 2011. pp. 1-3). Fourth, a brief conclusion reiterating the focus of our comments is presented.

1. Introduction

We agree with the views expressed by the CPSS-IOSCO Task Force in its report on the OTC derivatives data that should be collected, stored and disseminated by trade repositories (TRs). We also support the view that TRs, by collecting such data centrally, would provide the authorities, direct stakeholders and the public with more accurate, more complete and timely information at a low and reasonable cost. Thus, this improved disclosure of OTC data reporting would contribute to make the underlying markets more transparent, help to prevent market abuse, foster market discipline, reduce systemic risk, and promote financial stability.

2. General comments

Previous work carried out by the FSB (2010) and the CPSS-IOSCO (2011) provide the necessary guidance to facilitate an understanding of the major recommendations of the present CPSS-IOSCO consultative report. After considering the arguments and analysis presented in the text, we support the Task Force's recommendations on the five following aspects of the Minimum data requirements described in section 5.1 on pages 35-36:

- 5.1.1 Minimum reporting to TRS
- 5.1.2 Additional reporting to TRs
- 5.1.3 Authorities' access to data
- 5.1.4 Reporting entities and counterparties' access to data
- 5.1.5 Public dissemination of data

To expand on recommendation 5.1.5 above on public dissemination of data, we add the following points. To the benefits pointed out by the FSB (2010) report, more complete public dissemination of a TR's data would improve transparency of OTC derivatives markets, promote understanding of the functioning of OTC derivatives markets, facilitate the exercise of market discipline, and help contribute to investor protection. Moreover, ensuring public access to regular and frequent (at the least daily, and preferably intra-day) dissemination of data would contribute to improve the quality of teaching and training into several aspects of the functioning of OTC derivatives of present and future market professionals. Doing so, would also help stimulate academic and professional research and publication of the results of studies carried out on several aspects of the functioning of OTC derivatives markets. For instance, both managers and researchers could more easily seek to obtain operational efficiencies in the form of economies of scale, scope and experience. In addition, they could also more easily seek to improve risk management practices and contribute to enhance market allocational efficiency

by formulating better and more easily validated OTC derivatives pricing models. Following the Task Force's 5.1.5 recommendation, we strongly suggest that public dissemination of a TR's data could be done both in a granular way as well as in an aggregated form. Similarly, information should be released in a format that allows aggregation of data by the users easily.

After considering the arguments and the analysis presented in the text, we also support the Task Force's recommendations on the three following aspects of Methodology and mechanism for aggregation of data described in section 5.2 on pages 36-39.

5.2.1 Support of international legal identity identifier development and principles. The Task Force states on pages 36-37, and we agree: « As a universally available system for uniquely identifying legal entities in multiple financial data applications, LEIs would constitute a global public good». As the Task Force, we also find essential that : « ...the LEI follow a set of basic principles, set forth below, that address key functions or attributes of an LEI system.». On page 38, in addition to the reasons given by the Task Force, we suggest to add the need to improve the understanding and to promote academic and professional teaching, management training and research into OTC derivatives. We agree with the Task Force's belief: « that it is important that the LEI should be available to all interested parties (authorities, reporting entities and counterparties, and the general public) on a non-discriminatory, royalty-free or low-cost basis, and that cost should not be an impediment to obtaining or using the LEI. »

5.2.2 Continued international consultation regarding implementation of legal entity identifiers. As mentioned in the text on page 39: « The FSB ..., 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.» We also believe that participants in such a workshop or round table should also include among others, academic and professional experts, representatives of ISO, the industry groups currently working to develop an LEI, and representatives of authorities currently implementing or considering legislation or regulations relating to LEI use.

5.2.3 Development of a standard international product classification system for OTC derivatives. We agree with the Task Force that this is essential to carry out work as soon as possible to develop a standard product classification system for OTC derivatives products. Therefore, the Task Force recommends that the FSB direct, in the form and under the leadership FSB deems most appropriate, further consultation and coordination by financial experts, drawn from among others, authorities, industry professionals and academic experts, on a timely basis, concerning this work.

3. Specific comments on the CPSS-IOSCO cover note to the consultative report (24 August 2011, pp. 1-3)

As part of the consultation, the CPSS-IOSCO also requested comments on a few questions for which comments would be welcomed.

. On Data Gaps (page 1), we formulate no comments

. On Support for development and implementation of an international legal identifier, the Task Force discussed that FSB 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. In addition to experts drawn from the authorities and the financial services industry, we suggest to also include experts drawn from academic and professional bodies.

. On Development of a standard international product classification system. In order to reach a broad international industry consensus concerning OTC derivatives product identification and classification in a manner that is fair, open, transparent, and considers the interest of all stakeholders, we suggest that the appropriate parties to be involved in the industry initiative consist of the following: the authorities, financial services industry firms, financial market infrastructure firms (FMIs), academic experts, professional experts, trade organisations, risk management associations.

4. Conclusion

We believe that improved OTC derivatives data reporting, along with other FSB (2010) and CPSS-IOSCO (2011) recommendations would make the underlying markets more transparent, help prevent market abuse, foster market discipline, reduce the level of systemic risk, and promote financial stability. After considering the analysis presented in the text, we support the Task Force recommendations on the five aspects of minimum data reporting requirements described in section 5.1 of the report. We reiterated our belief in section 5.1.5 that further intense public dissemination of data would stimulate more fundamental and applied research on OTC markets and OTC products in general. As a result, both the operational and allocational efficiency of OTC markets could be improved. After considering the analysis presented in the text, we support the Task Force recommendations on the three following aspects of methodology and mechanism for aggregation of OTC data. First, we support the project of international legal identity identifiers development and principles. LEIs would constitute a global good; and as such, the LEI should be made available to all interested parties on a non-discriminatory, royalty-free or low-cost basis. We also suggested that academic and professional experts could also make a valid contribution to continued international consultation regarding implementation of LEIs. In addition, given the importance and the complexity of the development of a standard international product classification system for OTC derivatives, we agree that the FSB should direct further consultation and coordination by a wide array of experts. We suggest that the appropriate parties to be involved in the industry initiative consist of the following: the authorities, financial services industry firms, financial market infrastructure firms, academic experts and financial analysts, professional experts drawn from accounting, economics, finance, computer systems, actuarial and law firms, trade and risk management associations.

References

CPSS and IOSCO, Principles for financial market infrastructures – Consultative report, March 2011.

CPSS and IOSCO, Report on OTC derivatives data reporting and aggregation requirements - Consultative report, August 2011.

CPSS and IOSCO, Cover note to the Consultative report, August 2011.

FSB, Implementing OTC derivatives market reform, October 25, 2010.