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TULLETT PREBON'S OTC VALUATIONS RESPONSE TO REQUEST FOR COMMENTS ON OTC DERIVATIVES DATA REPORTING AND AGGREGATION REQUIREMENTS

OTC Valuations Ltd (OTC Valuations), Tullett Prebon's technology-driven services firm providing post-trade securities and derivative valuation services to clients globally, has responded to a request by the Committee on Payments and Settlements ('CPSS') and International Organisation of Securities Commissions ('IOSCO') for comments on its August 2011 consultative Report: *OTC derivatives data reporting and aggregation requirements*.

This is a specific to the request for perspectives as to the types of information that have been cited by the CPSS and IOSCO consultative report as useful but currently unavailable from trade repositories regarding current market values of individual open OTC derivatives transactions.

OTC Valuations commented that in order to calculate and report the current market values of individual open OTC derivative transactions, the trade repository would need, at a high-level, the following:

1. **TRANSACTION ECONOMICS:** All material terms of the transaction (i.e. effective date, maturity date, notional, coupon, etc.) would be required in a standardised format from the entity reporting the transaction to the trade repository. We note that the illustrative lists of suggested data fields for OTC derivatives in Annex 2 of the Report capture many of the required transaction terms.
2. **FINANCIAL MODELS/ANALYTICS:** To calculate the market value of any open position in an OTC derivative, financial modeling is required. While dealers may have the significant resources required to build these models internally by their financial engineering and development teams, models prevalently used amongst industry participants are available through third party financial libraries at a reasonable cost. These libraries would need to be incorporated into the technology used by the trade repository and integrated to take as inputs the static trade details mentioned in (1) above. This integration will require expertise in financial modeling and development.
3. **MARKET DATA:** Once the requisite static trade details have been input into an appropriate financial model, it will also require specific market data inputs in order to calculate an accurate fair value. For example, quoted deposit, futures and swap rates could be used to build a term structure of interest rates and subsequently bootstrapped to derive a discount factor ('DF') curve. This DF curve could be used to calculate implied forward rates for interest rate swaps (IRS), or to present value expected future cash flows from credit default swaps (CDS). Note the data manipulations/calculations may become more involved with other data, such as volatilities required to price OTC options, or credit spreads required to calculate default probability curves for CDS.

The raw market data is available from a variety of data aggregators or directly from data producers, such as inter-dealer brokers. Data costs typically overshadow the cost to purchase financial models.

4. **AUTOMATION:** Given the volume of transactions that will be reported to the trade repositories, the process of capturing and storing new OTC derivative transaction (static trade) details, plus managing and ensuring appropriate and clean market data is utilised, in addition to feeding the static trade details and market data into the appropriate financial models to produce an accurate fair value will require complete automation. Likewise, this need exists for the downstream reporting of these current market values. Means to automate the verification of the accuracy and consistency of these valuations is also required; this is often done by either comparing with the counterparty/dealer indicative valuation, or by comparing the valuation to one produced by another system or third-party provider. The reconciliation of any discrepancies between valuation sources should have pre-defined rules and involve automated processes, where automation is possible.

CONCLUSION: There are surmountable challenges and economical solutions available to trade repositories should they be required to report the current market values of individual open OTC derivative transactions, where these market values are not solely passed through from the transaction's counterparty, but rather independently calculated in a robust, auditable, and consistent manner. This solution would fill many of the valuation data gaps outlined in section 3.1.4.2 of the Report.

About Tullett Prebon

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In addition to its brokerage services, Tullett Prebon offers a variety of market information services through its IDB Market Data division, Tullett Prebon Information.

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OTC Valuations

OTC Valuations Ltd, a Tullett Prebon company, is a leading provider of transparent and auditable valuation and risk reports for vanilla through exotic OTC derivatives, securities, and structured products. As a technology driven services firm, OTC Valuations provides independent valuations based on validated market data, meaningfully calibrated models and proven valuation methodologies.

Utilized as a primary or secondary price verification service, OTC Valuations enables asset managers, fund administrators, hedge funds, banks, and other users of derivatives to increase valuation transparency, satisfy internal risk control and audit policies, and comply with increasing regulatory requirements.

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