Subir Gokarn: Launch of the OTC derivatives trade repository

Inaugural address by Dr Subir Gokarn, Deputy Governor of the Reserve Bank of India, at the CCIL, Mumbai, 9 July 2012.

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We are gathered here to mark the launch of the OTC Derivatives Trade Repository. As you know, in the aftermath of the US sub-prime crisis, improving transparency and reducing counterparty risk in OTC derivatives transactions have been two principal themes of discourse in the context of helping create a robust financial market architecture. This would not only reduce the possibility of recurrence of such a crisis in future but also contain the fallout and facilitate timely action by regulators. Transparency of OTC derivatives markets is now viewed as an essential pre-condition for all other measures to be effective. Regulators need comprehensive and timely information in order to effectively regulate, prevent risk build-up and ensure pre-emptive corrective action. Similarly, market participants also need to have sufficient knowledge about overall activities and positions in the market to enable them to better assess the potential riskiness of their operations. They can then take appropriate risk management measures contributing to the overall safety of the financial system.

The 2009 commitment of G-20 at Pittsburgh is based on this premise and accordingly states,

> "All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories."

Though Indian financial markets are relatively sparse in terms of the number and complexity of products as well as varieties of participants, the Reserve Bank has always been concerned with improving the transparency of the OTC derivatives market. The Bank had put in place summary reporting in various forms according to the regulatory need in case of all OTC derivatives, particularly forex derivatives, much before the onset of the crisis. The Bank had even required mandated transaction level reporting much before the importance of transparency for financial safety was widely accepted. It may be recalled that in July 2007, RBI had, through a regulatory mandate, tasked CCIL to collect and collate transaction level data for IRS. The reporting framework for Credit Default Swaps (CDS) was put in place from the date of introduction of the instrument itself. The current initiative is another significant step in that direction. Its objective is to create a comprehensive repository framework for all OTC foreign exchange and interest rate derivatives with phase-wise implementation of the various reporting modules.

The reporting platform being launched today caters to OTC inter-bank USD-INR forwards, FX swaps and FCY-INR options. The platform will be upgraded in subsequent phases to capture other inter-bank foreign exchange derivatives namely FCY-INR and FCY-FCY forwards and FX swaps; FCY-FCY options; FCY-INR and FCY-FCY currency swaps; FCY Interest Rate Swap (IRS), Forward Rate Agreement (FRA) and Caps/Floors/Collars; and all/selective client trades in the above foreign exchange derivatives and Rupee IRS. Over the period, it will be integrated with the reporting platform for the Credit Default Swap (CDS).

In its final shape, this repository structure will not only become a warehouse of information on OTC derivatives markets but will also provide post trade processing services for the derivatives contracts, thus enhancing the market efficiency. CCIL has been advised to develop various post-trade processing services in consultation with market participants. The repository structure will also be used for dissemination of price and volume data to market participants as well as to the general public.

Globally, the concept of Trade Repository is evolving. One of the issues being debated is data portability and aggregability among the trade repositories spanning countries and jurisdictions. The OTC derivatives market in India mainly comprises domestic counterparties and hence, extra-jurisdictional issues do not have much significance at this point in time. However, we are alive to the needs of uniformity of standards across the globe and our repository framework should have sufficient flexibility to conform to international standards and best practices as they evolve depending upon their relevance in the Indian context. This is a task for CCIL.

It is well recognised that there are significant economies of scope between central counterparty functions and repository functions. Yet, the two have some fundamental differences inasmuch as one involves taking risky positions while the other is a pure service function without any exposure. The RBI working group on the subject has accordingly recommended a subsidiary model for the repository function of CCIL, to preserve an arm's length between CCP function and repository function of CCIL. This is in line with best corporate governance practices. I am sure this aspect will be dealt with by CCIL as the reporting system consolidates.

To conclude, I am pleased to observe that we are among the first few jurisdictions to have fulfilled the G-20 commitment regarding reporting of OTC derivatives. I appreciate the hard work that has gone into it by the teams from CCIL and Financial Markets Department of RBI as well as the FIMMDA, FEDAI, PDAI and market participants. Thank you all for having achieved another milestone in making the Indian financial system, transparent, safe and robust.