



**Asia-Pacific  
Economic Cooperation**



# **Increasing Market Efficiency: Issues Specific to Derivatives**

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# Food for Thought

“You can have data without information, but you cannot have information without data.”

– *Daniel Keys Moran*

“The goal is to turn data into information, and information into insight.”

– *Carly Fiorina*

“In God we trust. All others must bring data.”

– *W. Edwards Deming*

# Looking Back

- What are the objectives of the G20 mandates?
  - Greater regulatory transparency
    - G20 Pittsburgh 2009 Communique:
      - “OTC derivative contracts should be reported to trade repositories...to improve transparency in the derivatives markets, mitigate systemic risk and protect against market abuse.”*
  - Mitigation of systemic risk
  - Protecting against market abuse
- Over the past several years, much work has been undertaken to achieve the transparency objective:
  - Multiple reporting regulations issued across jurisdictions - some as a big-bang go-live, some staggered
  - Trade repositories established and receiving trade reports
  - Industry reporting processes implemented
- Transparency is unquestionably better now than before the crisis.
  - Today, the vast majority of OTC derivatives trades are in fact reported, and additional jurisdictions are still going live (for additional types of reporting entity and/or asset class)

# Where Are We Now?

- Despite this seeming progress, major challenges remain:
  - Different, duplicative, conflicting and non-standardised reporting requirements across jurisdictions
  - Some data requirements are not clearly defined
  - The availability of ‘substituted compliance’ for reporting is limited, adding to duplication
  - Standardized reporting formats have been not adopted quickly or broadly enough
  - There is a lack of agreement as to how some data reporting requirements should be standardized across jurisdictions
  - Regulatory endorsement of standards already in use has been limited
  - Some reporting regimes are ‘closed markets’ – meaning they have their own trade repositories which do not leverage international standards and mechanisms
  - Legal barriers exist to sharing data and information, both within and across borders
  - Trade repositories have their own unique data architectures, formats and methods of sharing information
  - There is no facilitator or mechanism to aggregate data from different trade repositories globally
  - There is a lack of commitment among stakeholders in the process to drive and achieve consensus in these areas

# Where Are We Now?

- As a result of these obstacles:
  - Regulators continue to lack a true picture of risk in individual jurisdictions because of incomplete and inconsistent trade data. On a global level, this means that efforts to aggregate data (and risk exposures) remain little more than a dream.
  - Market participants face costly, duplicative and conflicting trade reporting rules.
  - Trade repositories have the unenviable task of collecting and standardizing data from multiple sources for multiple jurisdictions.
- Fortunately, all of these issues have solutions, however they will require the active support and cooperation of a range of global stakeholders – regulators, market participants and infrastructure providers.
- Now that major jurisdictions have largely implemented their reporting regimes, national regulators are increasingly turning their minds to cross-border efforts to achieve regulatory consistency as much as possible

# International Coordination to Date

- Trying to address issues such as:
  - Duplicative reporting: long-term, global solution needed
  - Collateral reporting: jurisdictional differences
  - Consistency of data field population
  - Jurisdiction-specific constructs and idiosyncratic (“outlier”) requirements
- CPMI-IOSCO Data Harmonisation Group formation:
  - Sept 2014: FSB Feasibility Study on approaches to aggregate OTC data
  - Nov 2014: CPMI-IOSCO establishes working group for harmonisation of key OTC derivatives data elements (Harmonisation Group)
  - Mandate is to develop guidance regarding definition, format, usage
  - Encourages use of internationally-agreed global standards for reporting
  - Includes (but not limited to) ECB, ESMA, CFTC, SEC, Federal Reserve Board, AMF, OSC, CSRC, BaFin, HKMA, JFSA, BoE, FCA

# International Coordination to Date (cont'd)

- Legislative barriers to reporting (blocking statutes):
  - Legislation in some jurisdictions completely prohibits counterparty identification, even if counterparty does consent
- Restrictions on use of data mean that cross-border access to data remains a challenge:
  - MoUs usually a prerequisite to access to foreign TR data relevant to a domestic regulator's mandate
  - However, legal barriers and lack of indemnification provisions still exist, precluding regulators from cross-border data access
  - Access may only be available to a primary authority (eg; securities regulator) but not to a non-primary authority (eg; prudential regulator, central bank)
  - Even when access is permitted, it may only be indirect access via the foreign regulator (not direct access to the foreign TR)
- Globally coordinated work is now underway to address this:
  - FSB Aug 2016 Report on FSB Members' Plans to Address Legal Barriers to Reporting and Accessing OTC Derivatives Data
  - Commits FSB member jurisdictions to remove legislative barriers by mid-2018
  - Recommends 'masking' of new transactions be discontinued by end-2018 once barriers to reporting are removed
  - Only covers FSB members, yet some FSB non-member jurisdictions still have blocking statutes in place



# What We Need: The Roadmap

- **To truly reach the ultimate goal of a single, globally-harmonised , high-quality data set which regulators can use to meet the G20 objectives and improve risk monitoring, a number of improvements to existing reporting regimes need to be made:**
  - **Harmonised , consistent reporting requirements, within and across jurisdictions**
  - **Removal of barriers to sharing data & information between regulators**
  - **Global promotion, regulatory endorsement, adoption and convergence on common data standards and formats**
  - **Greater availability of substituted compliance**
  - **Interconnectivity and interoperability between trade repositories**
  - **Greater cross-border regulatory focus on global aggregation mechanisms**
  - **Designation of jurisdictional, regional and global leaders to spearhead the aggregation effort**
- These issues cannot be solved at the individual jurisdiction level, and require global collaboration, coordination and engagement
- Only through implementing the above prerequisites can be the goal of transparency truly be achieved

# Usefulness of a Global Data Set

- Assessing systemic risk
  - Collecting and sharing global aggregated data
  - Examining size
  - Examining concentration
  - Examining interconnectedness
  - Examining structure
  - Evaluating derivatives for central clearing / platform trading determinations
- General macro assessment
- Monitoring trading activity, market surveillance and enforcement
  - Monitoring physical deliveries
  - Detecting market / price manipulation
  - Detecting insider trading, wash trading, market rigging, front-running

# Usefulness of a Global Data Set (cont'd)

- Supervising market participants
  - Registering / regulating participants
  - Business conduct
  - Prudential supervision
- Regulating, supervising and overseeing market infrastructures
  - Trading venues (exchanges, platforms, markets)
  - CCPs
  - Payment systems
- Planning and conducting resolution activities
- Implementing monetary policy / lender of last resort function
  - Managing currency policy and exchange controls
  - Implementing monetary policy
  - Acting as lender of last resort



**THANK YOU**