REVAL

January 24, 2011

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

**Re: Swap Data Recordkeeping and Reporting Requirements; Proposed Rule**
**17 CFR Part 45 RIN 3038–AD19**

Dear Mr. Stawick:

Reval.com, Inc. ("Reval") appreciates the opportunity to submit its comments in response to the Commodity Futures Trading Commission's ("Commission" or "CFTC") December 8, 2010, 17 CFR Part 45 RIN 3038–AD19 Swap Data Recordkeeping and Reporting Requirements; Proposed Rule ("Rule"), for a Swap Data Repository ("SDR").

Reval would like to commend the CFTC and its staff for putting together a comprehensive Rule tackling an area that is very complex and technical, given the broad scope of instruments required to be submitted to the SDR and the technology-related issues required to properly manage the data and to meet the reporting requirements.

**Executive Summary**

Reval® provides financial and accounting professionals with an award-winning Web-based platform that supports derivative risk management and hedge accounting. This Software-as-a-Service addresses the need for derivatives to comply with international regulations, such as FAS 133, FAS 157, Sarbanes-Oxley, IAS 39 and IFRS 7. Over 500 of the world's leading corporations, financial institutions, and accounting and advisory firms rely on Reval to provide independent valuations of derivative transactions and to assist with the hedge accounting of foreign exchange, interest rates, energy, credit, commodities, and other asset classes. Reval uses its expert teams comprising financial engineers, accounting professionals, and technologists to deliver its critically acclaimed services and products. Founded in 1999, Reval has headquarters in New York and regional centers based in Bala Cynwyd, Chicago, San Francisco, Toronto, London, Frankfurt, Graz (Austria) Sydney, Hong Kong, and Gurgaon (India).

Reval is uniquely positioned to be an SDR as it currently acts as a data warehouse across asset classes defined as Swaps under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act", "Dodd-Frank") and can provide valuation, risk and necessary reporting, conveniently over the Internet. As such, Reval fully intends to register to become an SDR.

While overall the Rule is very comprehensive and clear, it does not properly address one of the key requirements of the Act which is to reduce the possibility of systemic risk:

"To enhance transparency, promote standardization and reduce systemic risk, Section 728 of the Dodd-Frank Act establishes a newly-created registered entity—the SDR..."[1]

For Dodd-Frank, or any law to be effective, the regulations will have to **deter**, **detect** and **defend** against the kinds of activities and behavior that forced the creation of the bill to begin with. Many aspects of the Act, such as the Business Code of Conduct and increased clearing and capital requirements, will deter systemic risk from occurring again. The creation of the SDR is the foundation for the first line of defense to detect certain activities, without which the regulators cannot defend against the next occurrence of systemic risk. Without question, it will be a big leap forward to get all of the OTC derivative transactions onto SDRs to finally be able to monitor actual volumes and activities, but the Rule does not require SDRs to provide independent valuations nor does it require Reporting Counterparties to provide all the data necessary in the event that the SDRs would need to calculate, on demand, independent valuations or risk analysis.

Without the full required data sets and without defining the analytical requirements that the Commission needs to conduct to detect against future systemic risk, it is difficult to see how effective the SDR can be beyond spotting risk that probably has already occurred and how the rule can meet the goals of the following excerpt from 17 CFR Part 49 RIN 3038–AD20:

"Lastly, the proposed rules will give the Commission and other federal regulators access to data accepted by registered SDRs. Such access will promote greater risk management and give regulators a better measure of systematic risk throughout the financial markets."[2]

**Risk of Oversimplifying SDR Reporting Requirements**

The Rule allows for the data provider to submit the valuation to the SDR. While the Commission should be indifferent to this process should the derivative trade on an exchange or clear, for all of the un-cleared swaps, this approach would go against best practices or sound accounting principles. Taking un-cleared valuations from the very market participants who are selling the instruments without a checks and balance system is not prudent practice and goes against what Swap Dealers themselves require for proper risk management. If there were another Financial Crisis or a major counterparty default, then the SDRs would not be able to get a true real-time perspective on the current positions (a bankrupt Swap Dealer may not have much capacity to update the SDR with Snapshot pricing) let alone be able to provide reliable forensic analysis from the SDRs that cannot provide independent valuations.

The dilemma the Commission faces is quite clear, for if the Rule is too onerous there may not be enough SDRs who can meet the valuation and risk analysis requirements. If the approach is to keep the SDR's requirements as a basic data warehouse and that the Commission will plan to aggregate the data from multiple SDRs to run its own independent valuations and systemic risk reporting, then the data reporting requirements for Reporting Counterparties are still not robust enough.

For example, the table below shows the difference in Valuation of a very basic ten year cross currency swap when only using Minimum Primary Economic Data Fields versus using the data fields that are currently not required but are standard terms in ISDA confirmations and common hedges to commercial

[1] 17 CFR Part 45 RIN 3038–AD19 Swap Data Recordkeeping and Reporting Requirements, p. 76574

[2] 17 CFR Part 49 RIN 3038–AD20 Swap Data Repositories, p 80925

loans. (Refer to Exhibit A for more details regarding which fields are not captured and thus creating the valuation difference.)

| Swap Description | Valuation |
|---|---|
| Primary Economic Terms plus Standard ISDA terms | $ (66,325,000) |
| Only Primary Economic Terms | $ (21,053,000) |

This is just one example; there could be millions of trade tickets that have a LIBOR spread or compounding of interest. There are many more examples of inaccuracies that will arise from the lack of detail to the data, and in fact aside from the transactions that likely will trade on an exchange between Swap Dealers, it will be difficult to point to any trade that would have an accurate price based on the current set of data requirements.

**Analysis and Risk Reporting Requirements of the SDRs**

The future requirements of the SDR to provide analysis of the data[3] and risk reporting will not be possible if the SDR does not have the necessary full transaction data and cannot independently value transactions or model future scenarios. If the purpose of § 49.13 Monitoring, screening and analyzing swap data under 17 CFR Part 49 RIN 3038–AD20 is to go beyond ***the simple collating of swap data*** and to try to model or study the impact of potential future risk events, then the current Rule needs to be clarified to allow for likelihood that an SDR will be able to calculate valuations on a future date or to perform stress tests.

As the Commission currently does not know what analysis it might need in the future,[4] the Commission should consider amending

> § 45.1 (s) "Primary economic terms data" means all of the data elements necessary to fully report all of the primary economic terms of a swap in the swap asset class of the swap in question
>
> to:
>
> § 45.1 (s) "Primary economic terms data" means all of the data elements necessary to fully report all of the primary economic terms of a swap in the swap asset class of the swap in question and the data elements necessary to determine the market value of the transaction.

[3] § 49.13 Monitoring, screening and analyzing swap data. (a) Duty to Monitor, Screen and Analyze Data. A registered swap data repository shall monitor, screen, and analyze all swap data in its possession in such a manner as the Commission may require. 17 CFR Part 49 RIN 3038–AD20 Swap Data Repositories, p. 80930

[4] (a) Proposed § 49.13(a) Proposed § 49.13(a) requires SDRs to monitor, screen, and analyze all swap data in their possession in such a manner as the Commission may require. An SDR's duties in this respect include routine monitoring, screening, and analysis to accomplish any swap surveillance objectives established by the Commission, and specific monitoring, screening, and analysis tasks based on ad hoc requests by the Commission. The Commission expects that SDRs will be required to compile, extract, filter, and report information necessary to assist the Commission in the fulfillment of its regulatory obligations with respect to swap markets. However proposed § 49.13(b) only requires that SDRs undertake these functions at the Commission's request. *The Commission will consider specific tasks to be performed by SDRs at a later date, as its knowledge of the regulatory oversight needs with respect to the swap markets increases.* 17 CFR Part 49 RIN 3038–AD20 Swap Data Repositories, p 80907

This is not only consistent with the definition of the Primary economic terms for a credit swap or equity swap[5], but it also allows the Commission some flexibility in the future, should it require this capability of the SDR.

**Collateral and Master Agreements**

For the Commission to meet its goal of tracking systemic risk in the OTC Derivatives markets, it needs to have ISDA Master Agreements and associated Credit Support Annex's (CSAs) included in the repository network. On page 76586 of 17 CFR Part 45 RIN 3038–AD19, the Commission mentions the concept of a separate warehouse (repository) for ISDA Master Agreements/CSAs and corresponding collateral postings. We believe some form of this will be needed. To measure systemic risk through counterparty exposure, the agreements and mechanism for netting transaction valuations and posted collateral is essential to this task. In addition, the Commission will need the ability to net exposures across related or associated entities, albeit those entities likely have separate Master Agreements with a given counterparty (e.g. a Swap Dealer has OTC derivatives exposures at each of its foreign/global branches with a given counterparty under separate Master Agreements at each branch). Although these are not necessarily offsets in the event of default and legally are separate exposures, economically they can (and likely will) behave as one overall exposure. Furthermore, the data reporting requirements for Primary Economic Terms includes collateral information at the specific transaction level. Collateral is usually posted between counterparties at the net valuation level (aggregating all transactions under a given Master Agreement/CSA) and not at the individual transaction level.

Lastly, the current data reporting requirements, along with no current clear definition in the Rules for risk analytics, may limit the Commission to measuring counterparty exposure via a current exposure approach rather than an alternative method such as Potential Future Exposure (PFE).

**Life Cycle Event vs. State or Snapshot Approach**

While the distinction between the life cycle of credit default and equity swaps versus that of interest rate, foreign exchange and commodities swaps is clear and the approach taken by the Commission is understandable, there are other factors to consider.

The Snapshot approach may alleviate trying to define the various life cycle events that can impact a swap, but then this statement is not true:

> "Finally, the state or snapshot approach eliminates the need for a complex array of exception management messages, and reduces the reporting burden for reporting counterparties by permitting the systems of reporting counterparties to submit one basic type of message, the daily snapshot of updated primary economic terms. The greater technological simplicity thus permitted can be a significant benefit where non-SD/MSP counterparties (including end users) are concerned."[6]

The SDR in either Lifecycle or Snapshot approach will be required to have very complex exception handling capabilities to manage the daily re-imports of potentially millions of transactions[7]. There may be fewer data fields under the Snapshot approach, and they may be easier to manage, but there will be different technological burdens on both the data submitter and the SDR. For example, the SDR and data

[5] § 45.1 (q) (19) The data elements necessary for a person to determine the market value of the transaction. 17 CFR Part 45 RIN 3038–AD19 Swap Data Recordkeeping and Reporting Requirements, p. 76598

[6] 17 CFR Part 45 RIN 3038–AD19 Swap Data Recordkeeping and Reporting Requirements, p. 76584

[7] Reval currently hosts over a million transactions in its database representing approximately $3 trillion in notional.

submitters will have to heavily invest in robust, high-speed connectivity, expensive computer processing capabilities and expensive database architecture to ensure that there is enough speed to be able to store and save each daily Snapshot and to upload in a timely fashion the current day's Snapshot from all of the different data submitters.

The Snapshot approach does not lessen the burden to comply with § 45.10 Reporting of errors and omissions in previously reported data, which states: "…report any errors and omissions in the data so reported."[8] In order to create a process to verify if any swap data was omitted, the data submitter would have to reconcile with the SDR that the changes in the data from the current Snapshot, compared against the previous Snapshot, are not due to a transaction that has matured or has been amended or early terminated. In short, if there were a practical, less expensive and more robust way to capture all the OTC swap data, then the industry or other regulators would have already implemented a solution over the twenty plus years of the OTC derivative market.

**Conclusion**

The SDR will serve not only as the foundation for monitoring the derivative activities of all market participants, but also as the cornerstone for evaluating the true risk to the financial system. Phasing in the data requirements is an option, but the impact to changing the data and reporting requirements later will be significant as it is more than just increasing the size of the database of the SDRs. Significant investment will already be required by the data submitters and SDRs, and re-implementing the technology and workflow with changes to the requirements will be very costly. The analytical requirements to provide valuations and risk reporting will go beyond many potential SDRs' current and future capabilities and should be considered upon registration.

Regardless of how the rules are finalized, the task to put over $500 trillion notional of derivatives onto SDRs will be a monumental and important undertaking. It is clear that, as a starting point, the Commission has to define a core set of data requirements, which is no easy task given that the industry itself has not been able to do so in over twenty years. Nonetheless, the true benefits and capabilities of the SDR will be limited if more robust data is not required and if risk analysis requirements by the regulators are not better defined to assist the Commission in fulfilling this aspect of their duties with minimal impact to the taxpayer.

Sincerely,

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[8] 17 CFR Part 45 RIN 3038–AD19 Swap Data Recordkeeping and Reporting Requirements, p. 76605

**EXHIBIT A:**

The table below captures all of the Data Fields that would be required under the Rules to provide Minimum Primary Economic Data and those additional fields that would be captured as part of an ISDA Confirmation (highlighted in Yellow). The data fields in **BOLD** have an impact on Valuation.

| MINIMUM PRIMARY ECONOMIC TERMS DATA—INTEREST RATE SWAPS | |
|---|---|
| **DATA FIELD** | **DATA** |
| The Unique Swap Identifier for the swap | 123456abcde |
| The Unique Counterparty Identifier of the reporting counterparty. | 123456abcde |
| The Unique Counterparty Identifier of the non-reporting party | 123456abcde |
| The Unique Product Identifier assigned to the swap | 123456abcde |
| Contract type | Swap |
| Trade timestamp | 1/10/2011 10:45am |
| Swap effective date | 1/28/2011 |
| Swap end-date | 2/15/2021 |
| Notional amount one | $100,000,000 |
| Notional currency one | GBP |
| Notional amount two | $160,015,00 |
| Notional currency two | USD |
| Timestamp for submission to SDR | 1/10/2011 11:00am |
| Payer (fixed rate) | Bank XYZ |
| Fixed leg payment frequency | Semi-Annual |
| Direction | Bank XYZ is paying fixed rate |
| Option type | Not Applicable |
| Fixed rate. | 2.00% |
| Fixed rate day count fraction. | Actual/365 |
| Floating rate payment frequency. | Semi-Annual |
| Floating rate reset frequency. | Quarterly |
| Floating rate index name/rate period. | USD LIBOR/3M |
| Leg 1 | Fixed Rate |
| Leg 2 | Floating Rate |
| Futures contract equivalent | As defined in part 150. |
| Futures contract equivalent unit of measure | As defined in part 150. |
| Any other primary economic term(s) of the swap | |
| matched by the counterparties in verifying the | |
| swap. | |
| | |
| **ADDITIONAL DATA FIELDS REQUIRED FOR CORRECT INITIAL VALUATION** | |
| **Floating Rate Spread** | **300 bps** |

| | |
|---|---|
| **Floating Rate Day Count Fraction** | **Actual/360** |
| **Compounding Frequency** | **Quarterly** |
| **Compounding Style** | **Include Spread** |
| Floating Rate Source | Telerate 3750 |
| **Leg 1 Payment Calendars** | **London** |
| Leg 1 Payment Dates | 15th of February and August, starting on 2/15/2011 |
| Leg 1 Reset Calendar | Not Applicable |
| **Leg 1 Business Day Convention** | **Modified Following** |
| **Leg 1 Period End Date Convention** | **Adjusting** |
| **Leg 2 Payment Calendar** | **New York and London** |
| **Leg 2 Payment Dates** | **15th of February and August, starting on 2/15/2011** |
| Leg 2 Reset Calendar | London |
| **Leg 2 Initial Reset Calculation** | **Interpolation of USD 1W and 1M LIBOR** |
| **Leg 2 Business Day Convention** | **Modified Following** |
| **Leg 2 Period End Date Convention** | **Adjusting** |
| **Notional Exchange** | **Final Only** |