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

Re: RIN 3038-AD19 - Notice of Proposed Rulemaking on Swap Data Recordkeeping and Reporting Requirements (75 Fed. Reg. 76573)

Dear Mr. Stawick:

TriOptima welcomes the opportunity to submit comments in response to the Notice of Proposed Rulemaking on Swap Data Recordkeeping and Reporting Requirements ("Proposed Rule").

TriOptima's comments reflect our extensive experience serving as a key provider of OTC derivatives market infrastructure offering operational and counterparty credit risk management tools to the OTC derivatives market. TriOptima has significantly contributed to the promotion of better and safer OTC markets including:

- Terminating interest rate swap derivatives in 23 currencies with a notional principal value of $108 trillion , with the participation of more than 150 dealing institutions globally over the course of the past ten years;
- Terminating and compressing more than $ 68.2 trillion in notional value of credit derivatives since 2005, eliminating 50% of the global gross notional outstanding in 2008 alone;
- Maintaining extensive data for more than 6 million live OTC derivatives contracts covering all asset class (interest rates, credit, commodity, FX, equity, etc.) from more than 2,750 legal entities, representing approximately 75% of all non-cleared OTC derivatives, for the purpose of reconciling and ensuring the accuracy of that data;
- Developing and supporting the global Interest Rates Trade Reporting Repository ("the Rates Repository") which produces weekly reports covering 3.9 million OTC interest rate derivative transactions with a notional value of $486 trillion for regulatory review.

Based on our experience as the provider of the Rates Repository we believe that Swap Data Repositories ("SDRs") represent an unprecedented opportunity to create transparency in the OTC derivatives market.

We would like to start by making two general observations on the nature of the OTC derivatives market that we believe are important to consider in the rule making process.

The first observation is that “OTC derivatives” is a label that encompasses a wide variety of different types of financial contracts. At one end of the spectrum there are financial contracts that are so mature and popular that they have reached a fairly high level of standardization, which has facilitated the implementation of infrastructure to support a number of processing needs like electronic execution, confirmation, allocation, settlements, collateralization etc. At the other end of the spectrum there are bespoke transactions, customized to the individual needs of clients, where the degree of standardization and infrastructure support is low, and the rate of innovation is high. The low volumes traded in these bespoke products and their customized nature makes investment in automation prohibitively expensive.

We believe that this spectrum represents a choice for buy-side clients where they make trade-offs between standardized and bespoke products, taking into account the relative costs of entering into these transactions. The increased cost of doing bespoke transactions is then compared with the benefits of getting a derivative contract that more exactly fits the risk an end-user wants to hedge, thus eliminating unwanted and perhaps unmanageable basis risk. One of the stated objectives of SDRs is to increase the transparency of the market to the benefit of end-users. If the reporting requirements to SDRs become too stringent and onerous, the transparency benefit to the end-users may become overshadowed by the increased cost of doing customized transactions. Thus, in an effort to minimize costs, end-users might enter into sub-optimal transactions that do not afford them the same effective hedging and risk management opportunities.

The second observation is that OTC derivative markets are truly global with counterparties from all over the world trading with each other. The market is not localized anywhere and the infrastructure that exists to support the market is built specifically to cater to the needs and requirements of the global nature of the market. Introducing detailed national regulations stipulating how the OTC derivatives markets should operate locally may in many cases contravene such global infrastructures and introduce inefficiencies that will lead to both increased cost and less than optimal levels of stability and transparency in the global financial system.

Structuring repositories to fulfill specific regulatory objectives

In the Proposed Rules, the Commission acknowledges that

“…various U.S. financial regulators need different types of financial information to fulfill their mission. Systemic risk regulators, among other things, need data that will enable them to monitor gross and net counterparty exposures, wherever possible, not only on notional volumes for each contract but also market values, exposures before collateral, and exposure values net of collateral with a full counterparty breakdown. Such data would allow for the calculation of measures that capture counterparty risk concentrations both for individual risk categories as well as the overall market. Market regulators need data that enables them to promote market competitiveness and efficiency, protect market participants against fraud, manipulation, and abusive trading practices, enforce aggregate speculative position limits as adopted, and ensure the financial integrity of the clearing process.”

It should be noted that the regulatory need for these different types of financial information implies aggregating data across different dimensions to achieve the purposes of different types of regulators, for example;

- In order for systemic risk regulators to monitor credit exposure, data needs to be aggregated across the netting sets. For OTC derivatives this means all contracts tied to the same master agreement with a certain counterparty. This requires an aggregation of OTC derivatives transactions with the same counterparty in the cross-asset class, cross-product type dimension.

- In order for market regulators to monitor manipulation, insider trading and enforcement of position limits, positions need to be aggregated to reveal certain specific underlying risks. Such risk positions may arise from positions in securities, listed derivatives or OTC derivatives, and possibly other types of financial arrangements. So for market regulators, this requires an aggregation for a specific underlying risk in the instrument type dimension.

In addition, the Commission is endorsing competition among repositories, and we will most likely see a geographical separation of repositories as well.

This means that in order to fulfill the regulatory missions above, data will have to be aggregated across repositories and this may prove to be a very significant challenge for regulators, possibly jeopardizing the whole original transparency purpose of repositories.

In order to serve the regulatory community better, we believe that a regulatory framework should be set up, where repositories can apply to provide services specifically targeting different regulatory objectives, e.g., SDRs specifically targeting one or more of the following

- Systemic risk monitoring requirements
- Market surveillance requirements
- Price transparency requirements

There are several advantages to such an approach; First of all it will facilitate regulators in fulfilling their articulated objectives; secondly it will reduce cost and speed up implementation of repositories. Thirdly, such functionally-specialized repositories would be far more capable of resolving some of the intricate reporting issues which the Commission has identified for comment in the Proposed Rules. Examples of such issues are: reporting of multi-asset swaps, portfolio-related data like exposures and collateralization, aggregation of underlying risk positions across instrument types, etc. The solution to such intricate issues is always easier to reach when focusing on a specific and precise regulatory objective; and the appropriate solution may be different depending on the regulatory objective.

Functionally-specialized repositories would potentially require reporting institutions to submit data to several repositories, but that is the case already with the current Proposed Rules. The specialized repositories do however require different types of data:

- A systemic risk repository would primarily be focused on the outstanding stock of existing OTC transactions between two parties, combined with information on any credit risk mitigation that is in place, like collateral;
- A market surveillance repository would primarily be focused on the flow of new transactions, across various instrument types, and combined with the current risk positions taken in specific underlying risks;
- A price transparency repository would only be focused on the flow of new transactions.

Already in the Proposed Rules, there are (at least) three different streams of data (creation data, continuation data, and real time prices) which need to be reported by different institutions in various stages of the trade life cycle. These different streams require different technologies, so even if they are all reported to the same repository, there will be three separate interfaces. The functionally-specialized repositories would in most cases only need one type of interface.

The requirement that all swap data for an individual transaction should be reported to a single repository is not compatible with such functionally-specialized repositories. Furthermore, we fail to see which regulatory objective is promoted by stipulating such a rule.

Determination of reporting parties

The fact that the Dodd-Frank Act only stipulates that one party is obliged to report introduces complexity for both submitting institutions, as well as the SDR, especially when the two counterparts are of the same type (i.e., SD, MSP or non-SD/MSP). Furthermore, the quality of the data in the SDR will be more difficult to assess for the regulators.

One particular problem relates to the outstanding stock of existing transactions. For this stock, the parties need to come to some type of agreement on the principle or rule as to who should report. Given that parties have different methods of booking their trades, and may also have categorized their trades differently, we see a **significant risk of omissions as well as duplications** of reported transactions. This problem will be even bigger if the two parties are reporting to different repositories.

Also, the current proposed rules stipulate that the correctness of the creation data must be verified with the counterparty. Although not obliged to report to the SDR, the counterparty is involved in this verification process, so the most effective solution might well be that the party not currently obliged to report should also report the transaction to the SDR.

Furthermore, the requirement that the SDR verify accuracy with the counterparty only seems to apply to the creation event. All other reports made will not automatically be checked with the counterparty. Not involving the counterparty means that a very simple and effective method of discovering errors is not utilized.

We understand that Congress' objective for not mandating double-sided reporting was to ease the burden on derivatives end-users. We propose that for systemic risk reporting, a rule stipulating that both SDs and MSPs, but not the

non-SD/MSPs, need to report their transaction information would be very useful for ensuring accurate data in the SDR. The optimum rule would require that SDs and MSPs bilaterally agree on one systemic risk SDR to which they will submit the complete data on all outstanding transactions.

When requiring such double-sided reporting, it should also be required that the submitting counterparties attach a common identifier for each trade, either the USIs or some other type of id generated by a specific matching venue, so that the two sides can be paired up by the SDR.

Unique identifiers

The proposed reporting system relies heavily on the proposed introduction of Unique Counterparty Identifiers (UCI), Unique Swap Identifiers (USI) and Unique Product Identifiers (UPI).

There is no question about the value of such unique identifiers. The proposed rules go into benefits of unique id's at some length, e.g., it is acknowledged that without such identifiers the ability to aggregate across multiple markets, entities and transactions is dubious. Also, further benefits cited cover a facilitation of financial transaction processing, internal recordkeeping, compliance, due diligence, and risk management by financial entities, as well as tracking information on swap transactions efficiently across a diverse array of market participants, trading venues and product classes. Further positives mentioned include the use of unique identifiers to ensure the Commission's ability to aggregate transaction and position data for the purposes of conducting market and risk surveillance, enforcing position limits, analyzing market data, and improving market transparency.

The introduction of such identifiers does however pose some significant challenges, some of which we discuss below. We see a significant risk that making the SDRs dependent on the introduction on such identifiers may delay the effective implementation of SDRs unnecessarily; and we respectfully suggest some alternative approaches in order to mitigate this risk, while still allowing for such identifiers to be phased in over time.

Unique Counterparty Identifiers

The Proposed Rule states that *"an important purpose of the UCI required by the proposed rules would be to enable effective assessments of counterparty positions and aggregation of swap data across asset classes, markets, and related legal entities, in order to effectuate the systemic risk preventions and transparency purposes of Dodd-Frank".*

The Proposed Rule further states that "*The UCI requirements would only apply prospectively to new swap transactions executed following the effective date of the Commission's final swap data reporting regulations."*

As far as we understand, the UCI must be applied to all existing swap transactions, as well as to any new trades, in order to enable aggregation of swap data across asset classes for systemic risk monitoring purposes. This will

mean significant adaptation costs for the industry and possibly delaying the implementation of SDRs.

An alternative approach would be, for an interim period, to allow reporting institutions to submit their own counterparty identifier and then map that identifier to the identifier used by the SDR. At a later stage, the SDR's identifier can be mapped to the UCIs once they are implemented.

Furthermore, one of the stated principles for UCIs is that they must *"persist despite all corporate events"*. Corporate events include mergers and acquisitions where two or more legal entities become one, and also de-mergers and splits where one legal entity becomes two or more. Detailed rules need to be laid out for how UCIs should evolve in such events.

Unique Swap Identifiers

If we imagine a world where all OTC swap trades have unique identifiers, we can start to think about what that would require. We see challenges in three main areas:

Firstly, one implication of USIs is that the unique id needs to be passed back to one or both parties to the trade from its point of creation, since both parties will likely already have created their own unilateral records prior to the so called "first touch". These internal records will then have to be paired up or reconciled with the external unique id/ "first touch" records in some way.

Secondly, there is the persistence of the id over the life of the swap. Over the life of the trade, one party may have one persistent record, whereas the other side may terminate one record and create a new one in response to a lifecycle event. For many swaps this is not an issue, but a significant number of transactions experience lifecycle events such as assignment, allocation, partial termination, exercise etc. where it may not be obvious whether a new id should be assigned or not. Rules will have to be laid down and systems implemented to govern these occurrences as well.

Thirdly, the OTC derivatives market is characterized by the fact that there is a relatively large outstanding stock with some very long dated contracts and a relatively thin flow of new contracts. This means that introducing USIs on new swaps transactions only will result in a very long transition period where there are live contracts both with and without USIs. This will be problematic from a technology perspective. On the other hand, introducing USIs on existing transactions will be a massive undertaking for the industry.

Modifying parties' systems to incorporate USIs is extremely far reaching. When designing a software solution, one of the most important decisions to get right is the data model determining which tables to maintain and which data to put in those tables. If this is well designed early on, then the project has a much higher chance of success. Within the task of designing the data model itself, designing the keys and indexes to the various tables is similarly fundamental.

To use the analogy of a city, the comprehensive and automatic allocation of USIs, which are undoubtedly valuable, would require digging up every street and avenue to implement.

We also note that the need to introduce USIs in the context of SDRs arises primarily from the requirement that different institutions report data on the same transaction to SDRs at various stages of the transaction's life. For example SEFs, DCMs, DCOs and SDs/MSPs report creation data, and DCOs and SDs/MSPs report continuation data.

An alternative approach, that wouldn't require an immediate introduction of USIs, would be to impose the reporting obligation consistently over the life of a transaction. The only requirement necessary to enable an SDR to collate the various submissions would then be for the reporting institution to submit its own unique identifier consistently over the life of the swap. The only type of institution that could provide the necessary data in all cases is the party to the transaction i.e., an SD or MSP. (For real-time prices SEFs and DCMs can do the reporting.) Effectively, this can still be interpreted as a USI built from the name of the reporting institution combined with that institution's own unique id of the transaction. Having such a "consistent source" approach would allow the industry to re-engineer its systems to incorporate USIs in an orderly and well-conceived methodology, without making the introduction of SDRs dependent on its completion.

Unique Product Identifiers

The UPIs are intended to serve several regulatory purposes, such as

- Transparency
- Enforcement of position limits
- Analysis of swap data

In order for UPIs to be effective for regulatory purposes they "*would require a robust taxonomy for swaps in each swap asset class, as well as decisions concerning what classification scheme to use, and concerning the appropriate level for UPI assignment within such taxonomies".*

Several sources, including financial institutions, software firms and academics have spent considerable time pondering this problem. Such a robust taxonomy has proven to be elusive. The reason for this is that an OTC derivative contract essentially is a collection of financial elements, where a financial element is some type of fixed or contingent flow of financial assets. The choice of elements collected is driven by the users' desire to take or mitigate risks, and not necessarily any relationship between the elements. Innovation in OTC derivatives is mainly done by compiling a new collection of financial elements or inventing a new contingency, possibly referencing some new underlying source of risk.

Some of these collections have achieved a high degree of popularity and therefore been given their own names like "Interest Rate Swap", "Forward Rate Agreement", "Total Return Swap" or "Variance Swap", and a certain degree of standardization has evolved around trading and post trade processing.

It should be noted that these names are simply labels attached primarily for convenience. There are no stringent definitions of these names and they cannot be the basis for any taxonomy.

The potential variation in the construction of an OTC derivative means that regardless of what taxonomy is introduced, there will always be contracts which do not fit, and rules need to be laid down on how these should be handled.

Data standards

In the OTC derivatives market there have been a number of efforts seeking to establish data standards. A number of such standards, that have achieved a certain level of general acceptance and adoption, exist for various operational purposes. The existing data standards are primarily implemented in the “plain vanilla” end of the product spectrum and primarily adopted by relatively active participants in the OTC derivatives market. There is no universally accepted data standard catering for all different operational needs or for all types of OTC derivatives.

The complexity associated with defining a universal data standard is linked to the flexibility in designing OTC derivatives contracts, but also linked to the lack of standardized procedures for processing OTC derivatives across this global multi-asset class market.

Our experience in working with various standardization efforts has lead us to the conclusion that it is far easier to define and get general acceptance of a standard if it is focused on fulfilling a specific objective. If repositories are allowed to focus on fulfilling specific regulatory objectives, it will be much easier to establish data reporting standards that can be broadly implemented and remain relatively stable over time.

State or snapshot submission of continuation data

We wholeheartedly approve of the Commission’s stipulation of using the snapshot approach for submitting continuation data for the interest rates, fx and commodities asset classes. We genuinely believe that such an approach is superior to other approaches when it comes to the robustness and the accuracy of the data in the SDR.

Summary

The origins of our current presence as a repository lie in our exposure management service, triResolve. Through our triResolve service, we receive the primary economic terms of 6MM outstanding OTC swap contracts and their valuations on a regular basis, the majority daily. These trades are across all asset classes and instrument types, and the details are submitted by both parties to the trade, including buy and sell side. The service provides extensive reporting, analysis, and resolution of differences at all levels from portfolio to individual transaction. When OTC swap repositories were first proposed, we

successfully bid for the IR asset class, largely on the basis of the jumping off point our triResolve exposure management service represented. This assumption proved valid, and we were able to go live with our Rates Repository within 4 months of our successful bid.

We believe that as prescribed, SDR's will take years to implement (and even longer for the adoption of universal unique identifiers across the entire outstanding population), significantly delaying the effective implementation of the systemic risk monitoring goal.

We respectfully suggest some modifications to the Proposed Rule that we believe will shorten the time to implement an operational SDR as well as better and more effectively support the regulatory objectives in regards to repositories:

- Repositories should be allowed to specialize in fulfilling specific regulatory objectives like systemic risk monitoring, market abuse monitoring and price transparency.
- Reporting obligations regarding which SDR to report to should be aligned with the specialization of the SDR, for example:
    - for systemic risk SDRs, a reporting party should report all transactions with a certain counterparty,
    - for market surveillance SDRs, a reporting party should report all risk positions in specific underlying risks.
- Reporting obligation for a particular transaction should be on one type of institution only, i.e., one of the parties to the transaction.

We also believe that the completeness and accuracy of the data in a systemic risk monitoring SDR will benefit from having a complete set of bilateral transaction data reported by both counterparties using a common identifier on each transaction.

We appreciate the ability to provide our comments on the Proposed Rules and look forward to working with the Commission as you continue the rulemaking process. Please feel free to contact us at your convenience with any questions.

Sincerely,

Per Sjöberg
Executive Vice President
per.sjoberg@trioptima.com

TriOptima AB
PO Box 182 | 101 23 Stockholm | Sweden | tel +46 8 545 25 130 | fax +46 8 545 25 140 | Company reg no. 556584-9758
Visiting address: Klarabergsviadukten 63 | Courier address: Blekholmsgatan 2F