

THE

Risk DESK

July 28, 2017

Vol 16 Issue 14



rough seas

allow me to fix that swap data

Earlier this month the CFTC announced that it was launching a comprehensive review of the swap data reporting regs and policies. Good thing, too. The Division of Market Oversight also opened a 40-day comment period to solicit input for the effort. According to a release from division chief Amir Zaidi, “The division will focus on changes to the existing regulations and guidance with two goals at the forefront: (a) to ensure that the CFTC receives accurate, complete, and high-quality data on swaps transactions for its regulatory oversight role; and (b) to streamline reporting, reduce messages that must be reported, and right-size the number of data elements that are reported to meet the agency’s priority use-cases for swaps data.”

This isn’t some off-the-cuff review, mind you. It seems to be the real deal. The division has also produced a 12-page PowerPoint, “Roadmap to Achieve High Quality Swaps Data” for the whole process. The review is in two parts: first to assess the situation surrounding SDR data and operations, data accuracy and the like, and second, a review of the reporting workflows, data standardization and so on.

Two separate chairmen across seven years couldn’t make this particular creation of the Dodd-Frank Act work. SDR data and regulator access to this data was designed to be somewhat of a panacea for the CFTC, a critical part of modern regulatory oversight, surveillance and enforcement operations. In theory, this steady flow of SDR data was akin to serving up on a silver platter the best view of derivatives markets in history. No dice. As hard as CFTC staff and SDR staff tried these past many years, the work flows and field (and other) standardizations never seemed to be

in sync. Sure, a lot of data has flowed to regulators, but from what we understand, much of it was useless, scrambled or difficult to analyze. That said, a couple folks we’ve spoken to from other divisions admitted that there is some value in the current data flows, but not a lot. The whole SDR data reporting regime has been badly broken for years. Now enter oversight division chief Amir Zaidi, the fellow tasked with heading up the project. *We noted to him earlier that if he had been tasked with fixing Congress, his odds of success may have been better.*

“It’s certainly a challenge,” Zaidi replied, “but it has to be done ... and it has to be done soon.”

Neither he nor the current chairman can take much blame for the poor state of affairs relating to swap data procedures or rules. The Dodd-Frank act originally offered few details on the SDR process, and former Chairman Gary Gensler largely blistered through the SDR plan, design and reporting rules. From the beginning, the agency unprepared to deal with the enormity of fire-hose scale data flows, plus managing mass standardization of procedures and data fields among competing, mega-exchanges. “Let IT deal with it,” didn’t cut it this time, and neither Gensler nor former chairman Tim Massad had the technology chops or the interest in shepherding it through.

That’s not to say that important work hasn’t been done. The agency ran a slew of technical conferences on the subject of swap data reporting and wrote a rule, of course, and they started working groups. There were plenty of efforts, but the hardware and the policy never fully hooked up. Which brings us to now.

“So, it makes sense to put out a plan, as we should have done with much of Dodd-Frank. We’re telling the industry this is what we plan to do, this is where we’re going, this is how we hope to get there and this is the schedule ... so they can plan and budget as well. (Zaidi’s roadmap can be downloaded at http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/dmo_swapdataplan071017.pdf.)

To date, a gazillion staff hours and industry time and treasure has been spent on the swap data exercise, and admittedly, progress has been spotty. So, is it time to trash the whole thing and start over or is past work salvageable?

“The way it is now, there are a couple main things that need to be done. On the SDR side, we need to build in more robust validations. Without it, the data will never be right.” So, bad data in, bad data out. “Exactly. We need to work more closely with the SDRs to nail the data validation process,” he says. When the original rules came out, they weren’t all that specific about data formatting. That was a mistake, he says. “Data harmonization on an international scale is the goal, and this means a lot of standardization. It’s vital ... and also doable. We don’t need to scrap everything and start over. We first need to get everybody on the same page, and move on from there,” Zaidi says. “The framework is in place, we need to be better at identifying which data we need and which data we don’t need. Market participants and SDRs alike have told us about their frustrations with formatting and aggregation, so the issues are known to us now.”

Truth be told, the agency can’t bare all the blame; much of the standard-

(Continued)

ization was actually left for the industry to decide. It was not an especially smooth process among competing entities, he says.

“On top of it all, this can’t be just a US-focused effort, these are international markets after all and foreign regulators need to be on board. We’re leading an CPMI-IOSCO data harmonization effort to do that now. The real goal here is to have all the trade repositories around the world running the same formats, aggregating data across jurisdictions and so on.”

He says that this third bit, the international harmonization, should be complete by year’s end. The rule-writing around data formatting and standardization will be ongoing. “There will be some new rules, but understand we’re also trying to make the whole process more efficient. Right now, we get everything, all the data, from companies. We don’t need or want everything. Internally, we’re focusing on determining what we really need and focus

in on just those key data fields. We plan to reevaluate all of this, to cut down on the costs for everybody.”

He says leadership has been putting a lot of thought into this effort for six months. Developing a plan, a timeline and somebody specifically to honcho the effort, which is something else the commission had never thought to formalize in the past six years. “The commission considers this effort a need-to-have, not a nice-to-have. So, we’ve put out the plan. Now it’s up to DMO to fulfill the plan. We’re on point for all of it.”

He says in the current public comment period he hopes to get hear thoughts and ideas on the timeline and implementation schedule, step sequencing, “also what we might have missed in our plan, what else should we be considering,” he says. “For now I was hoping for specific comments on the roadmap.”

In the future there will be ample

opportunity for folks in the market to comment on everything from specific rules sets to specific data validations or other details, he says.

“Based on the current timeline we hope to put out a proposal by the end of the year on the validation piece. I’m not sure yet if that will involve an open meeting or just seriatim,” Zaidi says.

Comments on the DMO roadmap must be received by the agency by Aug. 21, 2017. Submit your comments electronically at <https://comments.cftc.gov/PublicComments/CommentList.aspx?id=1824>.

All comments are posted on the CFTC website.

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