

**From:** Raf Pritchard <raf.pritchard@trioptima.com>  
**Sent:** Thursday, October 28, 2010 1:05 PM  
**To:** Recordkeeping <Recordkeeping@CFTC.gov>  
**Subject:** SDR comment letter  
**Attach:** 2010-10-26 Letter on SDR approaches FINAL.pdf; ATT00002..txt

---

>

> Please find attached SDR rulemaking comment letter

Commodity Futures and Trading Commission  
- Rule making group on Swap Data Repositories  
1155 21<sup>st</sup> Street, N.W  
Washington, DC 20581

Dear Sirs,

In connection with the rule making on Swap Data Repositories (SDR) we would like to make the following comments.

The comments below are based on our experience, including:

- For the last ten years, terminating more than \$105 trillion notional volume of interest rate derivatives, with data collected from more than 150 dealing institutions globally;
- Since 2007, maintaining data on more than 6 million live OTC derivatives contracts of every asset class (interest rates, credit, commodity, FX, equity, etc.) from more than 2750 institutions, representing an approximate 75% of all non-cleared OTC derivatives, for the purpose of reconciling and ensuring the accuracy of that data;
- Since January 2010, delivering the global Interest Rates Trade Reporting Repository (IRTRR), now producing reports covering \$486 trillion notional outstanding interest rates derivatives contracts.

We believe that SDRs represent an unprecedented opportunity for transparency in the OTC swap market. From our unique perspective and experience on the OTC swap market, we perceive there to be a number of key considerations for this potential to be fully realized. These considerations relate to the fundamental approach by which a repository obtains its data, as well as the details of the data fields that it obtains.

For the purpose of systemic risk monitoring, a key consideration is comprehensiveness - the repository should at all times have complete and up-to-date records of all live contracts. Since there are millions of live contracts, some consistency within the records captured is essential for the data to be analyzed.

When building a swap data repository, there are essentially two different approaches:

1. The first approach is based on recording the details of live contracts at inception and thereafter recording all events subsequently affecting the live contracts. (event flow approach)
2. The second approach is to record the current state of all live contracts on a frequent and regular basis. (current state approach)

Our experience has made us proponents of the second approach, which has shown to have significant advantages over the first one when building an interest rate derivatives data repository. Detailed reasons for this are outlined below.

### *Interest rate derivatives*

The asset class “interest rate derivatives” is a categorization that encompasses a vast array of different types of OTC derivatives products. In this category, there are not only the common interest rate swaps, but also many different types of option structures, cross-currency swaps, inflation swaps, or structures that mix various types of financial elements or other contingent cash flows. Often interest rate derivatives are tailored to the specific needs of end users, which explains this great variety and also leads to an evolution of the products traded in terms of new appropriate structures.

This is in stark contrast to the credit derivatives market where the need to be able to process credit events in a uniform and efficient manner has led to a high degree of standardization of the terms of CDS contracts.

When looking at the life cycle events that affect interest rate derivatives, there are not only the trading related events, like trade inception, novation, give-up, partial or full termination, etc. There are also many contract-intrinsic events (e.g. rate reset). Furthermore, new specific needs among end users spur evolution that continuously expands the number of these event types. This means that it is practically impossible to enumerate all the events that would need to be recorded by the SDR.

This is also in stark contrast to the credit derivatives market where the number of contract-intrinsic events is very limited. The cash flows are generally fixed at inception, and the other lifecycle events, i.e. managing credit events and other corporate actions, are both determined centrally.

### *Event flow approach*

In the event flow approach, not only would all the submitting parties need to be able to generate event messages for all the different types of events, they would also need to be able to cope with retractions and corrections. The SDR would also need to process all the events, to update the correct initial record, and would also need to be able to cope with retractions and corrections. A repository built from a stream of events is prone to “de-railing” since any message sent in error needs to be back-tracked in a complicated “handshake procedure” between the submitting party and the SDR. Any missed event or any duplicated event also needs a complicated interaction between the submitting party and the SDR, especially considering that the ordering of events may be relevant. These exceptions necessarily create the need for manual intervention, where backlog is inevitable.

All of this complexity serves to create uncertainty as to the accuracy of the data recorded in the SDR. There will be a need to reconcile data between the SDR and the submitting party’s internal systems in order to ensure that all events have been captured correctly.

### *Current state approach*

In a current state approach, a “snapshot” is taken at frequent and regular intervals of the entire set of live contracts. This approach is intrinsically more robust than an event flow based approach for building an SDR.

- There is no need to specify and prescribe the events that require updating of the SDR, since the current state of all live contracts is always submitted.
- The current state based SDR is by design always reconciled and synchronized with the submitting party’s internal systems. Any errors that may have been made by a submitting party will be automatically corrected in the SDR following their internal, upstream correction.
- A current state based design eliminates all the complicated exception management messages so that only one type of message, the description of the live contract, passes between the submitting party and the SDR.

Technologically, it is far simpler to implement a current state based submission of data than an event based submission. This is particularly important for end users which may not have the same technological economies of scale as the larger swap trading institutions.

It is indeed the case that most live contracts will not have any changes to their details from one day to the next, and it may therefore seem unnecessary to submit the same data over and over again. This is a fallacy, since simple repetitive tasks are comparatively easy to automate, and the data volumes are small and can easily be handled by both networks and computers. This is proven by our triResolve service which on average receives the current state of more than 4.5 million live OTC derivatives contract *each day*.

Furthermore, the data required in a current state based submission will be readily available in the risk management systems of all submitting institutions. Institutions devote considerable resources to ensuring that all live contracts are correctly recorded in their risk management systems at all times. In this way, the SDR will benefit from and leverage the existing data quality assurance process that exists within the institutions.

Also, the risk management system records all live contracts to which the institution is legally bound. This comprehensiveness of the data is of utmost importance to an SDR. This is regardless of the legal confirmation status of a live contract. The legal confirmation normally takes place the same day, in many cases electronically, but in some cases, a trade may take several days or even weeks to get legally confirmed. In order to monitor systemic risk it will be important to have a consistent view of all live contracts that are legally binding as of a certain time, not just the ones that have had all their legal details confirmed.

### *Summary*

To summarize, compared to an event flow based approach for building trade data repositories, a current state based approach

- is more robust and flexible,
- facilitates comprehensive, consistent and accurate information gathering,
- is far simpler to implement and therefore less costly to build and maintain,
- will, therefore, yield a much more comprehensive and accurate view of the population of live interest rate derivatives and
- at the same time, will entail a far smaller economic burden on the industry as a whole.

*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