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February 28, 2014

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Submitted to fsb@bis.org

Re: **Consultation Paper: Feasibility study on approaches to aggregate OTC derivatives data**

Dear Sir/Madam:

Markit is pleased to submit the following comments to the Financial Stability Board (the “**FSB**”) in response to its Consultation Paper *Feasibility study on approaches to aggregate OTC derivatives data* (the “**Consultation Paper**” or the “**CP**”).¹

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries.

Markit has been actively and constructively engaged in the discussion regarding regulatory reform of the financial markets.² Over the last several years, we have submitted over 100 comment letters to regulatory authorities around the world and have participated in numerous stakeholder meetings.

¹ FSB Consultation Paper: Feasibility study on approaches to aggregate OTC derivatives data. 04 February 2014.

² We regularly provide regulatory authorities with our insights on current market practice, for example in relation to valuation methodologies, liquidity measurement, the use of reliable and secure means to provide daily marks, or pre-trade credit checks to achieve clearing certainty. We have also advised regulatory bodies on potential approaches to enable the timely and cost-effective implementation of newly established requirements, for example through the use of multi-layered phase-in or by providing participants with a choice of means for satisfying their regulatory obligations.

Introduction

We welcome the publication of the Consultation Paper and we appreciate the opportunity to provide the FSB with our comments on the challenges of aggregating OTC derivatives data captured in the various Trade Repositories (“**TRs**”) around the globe. Our relevant expertise is based on several of our services:

- Markit provides processing services to the global OTC derivatives markets via its MarkitSERV platforms.³ Specifically, we offer trade processing, confirmation, and matching services for OTC derivatives across regions and asset classes, as well as universal middleware connectivity for downstream processing such as clearing and reporting.⁴ Over the last years many market participants around the globe have decided to delegate their various obligations to report OTC derivatives transactions to TRs to MarkitSERV. Today our processing platforms perform reporting to TRs across several asset classes and various jurisdictions.
- Markit Enterprise Data Management (“**EDM**”) is a central hub that allows its users to manage the acquisition, validation, storage and distribution of data gathered from various sources in a consistent and fully-audited environment. The platform helps our clients to take direct ownership of the data they consume, it creates master sets of data across all data types and delivers tangible data governance, risk management and compliance frameworks.
- Markit Portfolio Valuations is an industry validated, fully hosted service that provides independent valuations and risk measures for vanilla and exotic derivatives, private equity investments, structured notes and cash products. Our valuations are distributed via a single platform alongside clearing prices and counterparty marks.

Responses to consultation questions

Question 2. Does the analysis of the data and technology considerations cover the key issues? Are there additional data and technology considerations - or

³ MarkitSERV, provides a single gateway for OTC derivatives trade processing. The company offers trade processing, confirmation, matching, and reconciliation services across regions and asset classes, including interest rate, credit, equity, and foreign exchange derivatives. MarkitSERV also connects dealers and buy-side institutions to trade execution venues, CCPs, and trade repositories.

⁴ Such services, which are offered also by various other providers, are widely used by participants in these markets today and are recognised as tools to increase efficiency, reduce cost, and secure legal certainty. On that basis, our legal, operational, and technological infrastructure plays an important role in supporting the OTC derivatives markets in North America, Europe and the Asia-Pacific region.

possible approaches that would mitigate those considerations - that should be taken into account?

We believe that in the context of the Consultation Paper the FSB should specifically consider the relevance of Enterprise Data Management services and establish means to ensure that the valuations used are sufficiently accurate and consistent across asset classes, counterparties and jurisdictions.

a) Relevance of Enterprise Data Management services

Some of the main challenges discussed in the Consultation Paper are related to the normalization and validation of datasets that are gathered from different sources. As it happens, these are also amongst the main challenges that are addressed by Enterprise Data Management services that are offered by various providers.

Enterprise Data Management platforms will generally function as central hubs that manage the acquisition, validation, storage and distribution of data that is sourced from a variety of sources in a consistent and fully-audited environment. For example, the Markit EDM service ensures that only high quality, audited data is put at the centre of the organisation that uses the service. Markit EDM supports all industry standard data source formats and delivery mechanisms including flat file, XML, MS Access and Excel, text files, email, web services, message queues, direct database connection and FTP. Enterprise Data Management services will perform numerous functions that are relevant in the context of the Consultation Paper, including the removal of duplicates, the identification of overlaps and the creation of unique IDs for records that are received from multiple sources. The processing of the data is typically fully automated with exceptions handled by a configurable inbox while the platform will also analyse data validity and quality. Finally, Markit EDM produces data quality reports on all of the relevant sources including market data providers and it will run both technical and business validations. Importantly, the “fully audited” environment that is typically part of the Enterprise Data Management solution enables users of the data to monitor and track how the data has changed over time and who made the changes. It thus creates a bitemporal view of the data herewith enabling decisions/reporting to be evaluated by what was known at the time with full data lineage.

That said we believe that the FSB would be well-advised to treat the discussion about aggregation of derivatives data across TRs mainly as an Enterprise Data Management challenge. When doing so it should take into account that various commercial solutions have already been designed to address many of the challenges that are discussed in the Consultation Paper.

b) How to ensure that valuation data is both accurate and consistent

We believe that the FSB generally presents the challenges related to the contents, the quality and the standardisation of TR data appropriately. However, we note that beyond highlighting that “some TRs will collect this valuation information, but others will not”,⁵ the Consultation Paper does not explicitly address the issues of quality and consistency of valuation data.

In this context we recommend for the FSB to consider that the valuations used for the derivative transactions in TRs are the main input factor not only into the calculation of current exposure, but also into measures of systemic risk. Regulatory authorities must therefore ensure that the valuations used are not only reliable but also unambiguous and consistent across TRs, regions, and instruments. We believe that the use of “independent” valuations, i.e. valuations that are provided by parties other than the counterparties to the transactions, will be a key element to achieve this objective.

In our experience much of a TR’s data representation for OTC derivative products is of sufficient scope, detail, and rigour to allow for the calculation of independent valuations for the positions. However, while this TR data representation was a priority of the ODRF⁶ the CP does not contain any guidance or requirement for the calculation of independent valuations. We therefore recommend for the FSB to actively consider the conditions for and the mechanics of the provision of independent valuations across derivatives transactions and positions in the various TRs. Regardless of the chosen aggregation model valuations that are provided by independent parties could be used to vet the valuations that counterparties to the transactions submitted to TRs. This will not only ensure the sufficient and consistent quality of the valuations overall, but it will also allow regulatory authorities to identify some specific systemic risk factors that might originate from market participants based valuations.⁷

Importantly, only current exposure and systemic risk measures that are derived from independent valuations based on consistent sets of market data and models will be sufficiently accurate, unambiguous and comparable across firms, asset classes, and regions.

⁵ Box 1: Illustrations of data aggregation requirements, FSB CP.

⁶ Outline of Trade Repository Functionality Being Sought by Members of the OTC Derivatives Regulators’ Forum. *Available at:* <http://www.otcdrf.org/documents/traderepositoryfunctionalityoutline.pdf>.

⁷ For example, the aggressive marking or consistent mismarking of positions or the submission of erroneous valuations.

In summary, we believe that the FSB should consider the transparency and insights that the use of independent valuations and exposure calculations could provide. It would allow regulatory authorities to independently quantify the market value and risks of the entire OTC derivative inventory without relying on obtaining these [often incomparable] figures from individual market participants and trying to amalgamate them. We believe that the end solution should provide:

- Independent price verification of the mark-to-market per position, instrument type, asset class, counterparty, etc. to see where mispricing is happening on any level;
- The true collateral requirements on a global basis;
- The Value-at-Risk and exposures of the global OTC derivatives inventory, broken down to the individual counterparty;
- The Value-at-Risk and exposures of any central counterparty's inventory which can be compared with their default funds; and
- Stress tests for any subset of the global TR inventory, for example specific market participants or central counterparties.

Question 4. Are there any other broad models than the three outlined in the report that should be considered?

The Consultation Paper presents several options for the aggregation of TR data including a physically centralised model of aggregation,⁸ a logically centralised model of aggregation⁹; and the collection of raw data from local TR databases by individual authorities that then aggregate the data themselves within their own systems.¹⁰

Based on our experience in providing Enterprise Data Management services for similar use cases, we believe that the ability to handle the data aggregation and validation process via EDM tools can be applied for all three options almost equally. As the

⁸ This model would feature a central database where required transaction and (if needed and available) position and collateral data would be collected from TRs and stored on a regular basis. The facility housing the database would provide services to report aggregated data to authorities, drawing on the stored underlying transaction, position and collateral details. 1.3 Aggregation Models Analysed, FSB CP.

⁹ This model would feature federated (physically decentralised) data collection and storage of the same types of data as in Option 1. It would not physically collect or store data from TRs (other than temporary local caching where necessary in the aggregation process). Instead it would rely on a central logical catalogue/index to identify the location of data resident in the TRs, which would assist individual authorities in obtaining data of interest to them. 1.3 Aggregation Models Analysed, FSB CP.

¹⁰ Under this option, there would be no central database or catalogue/index. All the functions of access rights verification, quality checks, etc., would be performed by the requesting authority and the responding authorities or TRs on a case-by-case basis. Access would be granted based on the rules and legislation applicable to each individual TR. 1.3 Aggregation Models Analysed, FSB CP.

technical challenges do not really create a preference for one of these options we believe that the decision which of the three options should be chosen should be guided mainly by legal and governance considerations.

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Markit appreciates the opportunity to provide the FSB with comments on its Consultation Paper *Feasibility study on approaches to aggregate OTC derivatives data*. We would be happy to elaborate or further discuss any of the points addressed above. In the event you may have any questions, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Schüler', with a stylized flourish extending from the end.

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