

NEWSLETTER

Harmonization: key to market transparency

Larry Thompson - Managing Director and General Counsel,
The Depository Trust & Clearing Corporation (DTCC)

As mandatory reporting of over-the-counter (OTC) derivatives trades take effect around the world, trade repositories are emerging as one of the main pillars of systemic risk management. The industry has made significant progress since 2008, when it became apparent that innovation in financial markets had progressed at a much faster pace than the supervisory framework and the underlying market structure. The Lehman bankruptcy, for example, exposed data gaps that prevented regulators from having a transparent view of risk concentrations leading up to the crisis. During that period of acute stress, regulators and industry participants recognized the critical role trade repositories play in bringing transparency to this opaque market.

New rules enacted in Europe, the US and Asia mandate trade reporting of OTC derivatives. While a positive step forward, these rules must first be harmonized across jurisdictions to ensure repositories can fulfill their new role. Global repositories are the best means to ensure regulators have a complete view of the market, but in sovereign regions without regional regulation, such as Asia, there may be a role for national repositories. In these instances, data sharing between global and national repositories is essential. Regulatory access to data remains a contentious issue, particularly as it relates to the indemnification provision in the Dodd Frank Act. Contrary to Europe, which adopted the principles of equivalence and mutual rec-

ognition, the U.S. indemnification provision could hamper US-based trade repositories from receiving critical market data.

If this issue is not resolved, regulators globally may be in a position of not having access to the information needed to monitor market exposures. This could spur the creation of local repositories, which would lead to data fragmentation. Policymakers mandated trade reporting to ensure a consistent, accurate and timely view of risks in the system. Harmonization of rules and legal certainty around data sharing are urgently required so regulators have the data they need to perform market surveillance and ensure market stability.

