

# ARE YOU READY FOR FRTB?

## MAXIMIZE YOUR NON-MODELLABLE RISK FACTOR (NMRF) ASSESSMENT

— **DON'T WAIT!**

The Fundamental Review of the Trading Book (“FRTB”) released by the Basel Committee on Banking Supervision overhauls the minimum capital requirements for market risk to address shortcomings of the current Basel III market risk capital framework. FRTB requires banks to provide evidence of sufficient market liquidity related to the positions in their trading book that are capitalized using approved internal models.

Evidence of liquidity must be based on “real” price observations. Despite the FRTB compliance date being postponed until 2022, affected banks should not delay their planning

- Firms must prepare to: define technology strategies and approaches; design and develop operational models; source, analyze and manage existing and new data sources.
- Data sourcing, analysis and management is critical to FRTB compliance to ensure data standardization, consistency, high-quality results, and optimal capital calibrations.

### CRITICAL PATH TO DEADLINE



## LARGEST CONCENTRATION OF DATA FOR “REAL” PRICE OBSERVATIONS

In order to satisfy FRTB’s “real” price requirements for less liquid instruments and reduce NMRFs, firms will likely need to tap into new data sources. Failure to do so may subject firms to significant capital increases in certain business lines, which could potentially cause some key markets to become unprofitable.

DTCC is uniquely positioned to provide the industry with comprehensive price observation data source for the over-the-counter (OTC) derivatives market and other illiquid instrument classes. Our FRTB Real Price Observations Data Service will leverage DTCC’s global data collection infrastructures to pool observable transaction data, helping banks meet requirements for internal model approval, thereby maximizing risk capital charge efficiencies.

As the premier post-trade market infrastructure for the global financial services industry, DTCC has **UNSURPASSED DATA COLLECTION** capabilities across multiple asset classes, including the more illiquid securities in the opaque OTC derivatives market.



DTCC’s GLOBAL TRADE REPOSITORY (GTR) processes:

**14 billion**  
MESSAGES PROCESSED ANNUALLY

**40 million**  
OPEN TRADES A WEEK

**100K**  
ENTITIES

**5**  
ASSET CLASSES



DTCC’s TRADE INFORMATION WAREHOUSE (TIW) automates:

**98%**

OF ALL CLEARED AND BILATERAL  
CREDIT DERIVATIVES

**\$10 trillion**

GLOBAL WORTH

**US\$1.6 quadrillion**

Approximate value of securities transactions processed by DTCC’s subsidiaries in 2017.

DTCC's post-trade infrastructures also support processing for cash products composed of corporate bonds, equities and asset-backed securities in DTCC's clearing agency affiliates, National Securities Clearing Corporation (NSCC) and The Depository Trust Company (DTC).



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EXCHANGES AND EQUITY TRADING PLATFORMS

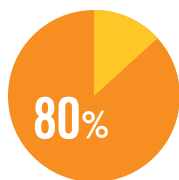
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COUNTRIES AND TERRITORIES

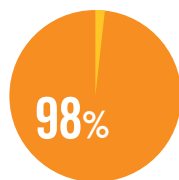
US\$57 trillion

98%

ESTIMATED DTC AND NSCC COMBINED SHARE OF US DOMESTIC COVERAGE OF CASH PRODUCTS



ESTIMATED GTR GLOBAL MARKET SHARE



ESTIMATED TIW GLOBAL MARKET SHARE

TYPE	SOURCE*	ASSET CLASS	DAILY VOLUME	LOCATION
Derivatives	GTR	Commodities	+1.5M	Global
Derivatives	GTR	Credit	<2M	Global
Derivatives	GTR	Equity	+5M	Global
Derivatives	GTR	FX	+6M	Global
Derivatives	GTR	Rates	+10M	Global
Derivatives	TIW	Credit	40K	Global (Superset)
Cash	DTC	Structure Finance	5K	US Domestic
Cash	NSCC	Corp Bonds	47K	US Domestic
Cash	NSCC	Equity	+115M	US Domestic

\*GTR — Global Trade Repository; DTC — Depository Trust Company; TIW - Trade Information Warehouse; NSCC — National Securities Clearing Corporation

## IMPACT

DTCC conducted a “real” price data study, which internally analyzed over 10 billion OTC derivative transactions to assess the impact of pooled data on modellability.

### ✓ AN INDUSTRY POOL DEMONSTRATES HIGH LEVEL OF MODELLABILITY ACROSS CREDIT, RATES AND FX

Industry pooled data may result in **66% modellability** by notional for Credit, **97.8%** for Rates and **99.7%** for FX.

### ✓ LARGE DEALERS WOULD BENEFIT FROM USING INDUSTRY POOLED DATA

Individual large dealers who contribute a significant amount of transactions to the pooled data may receive a material reduction of non-modellability by leveraging pooled data from all large dealers. Even further reduction of non-modellability can be seen across product types and asset classes by utilizing industry pooled data. For instance, the total non-modellability by notional for the CDX option may drop **as low as 21%** leveraging only the large dealers’ pooled data. Using industry pooled data may further reduce non-modellability to **2%**. Similarly, use of industry pooled data may yield a reduction of non-modellability by notional for basic swaps between **7% and 23%** depending on a bank’s individual portfolio.

### ✓ DEALERS HAVE THE POTENTIAL TO SEE RELATIVE REDUCTION OF NON-MODELLABILITY ACROSS MULTIPLE ASSET CLASSES BY USING INDUSTRY DATA

#### ASSET CLASS LARGE DEALER KEY FINDINGS

##### CREDIT

- Relative reduction of non-modellability by notional may range from **39% to 77%**
- Large dealers can potentially realize **50% or greater** relative reduction

##### RATES

- Relative reduction of non-modellability by notional may range from **65% to 100%**
- Large dealers can potentially realize **50% or greater** relative reduction rate

##### FX

- Relative reduction of non-modellability by notional may range from **64% to 100%**
- Large dealers can potentially realize **50% or greater** relative reduction rate

##### EQUITY

- Relative reduction of non-modellability by notional may range from **0% to 65%**
- Large dealers can potentially realize **20% or greater** relative reduction

CONTACT US

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**DTCC**

Securing Today. Shaping Tomorrow.®