OVERVIEW

The Fundamental Review of the Trading Book (“FRTB”) released by the Basel Committee on Banking Supervision on January 14, 2016,1 overhauls the minimum capital requirements for market risk to address shortcomings of the current Basel III market risk capital framework.

One of the major changes to market risk capital under FRTB is the introduction of the risk factor modellability assessment framework based on “real” price criteria. This new framework requires banks to evidence sufficient market liquidity for the market risk factors related to the positions in their regulatory trading book that are capitalized using approved internal models.

The evidencing of market liquidity is based on these risk factors meeting minimum standards with respect to actual transactions and committed quote volume. These “real” price requirements to assess risk factor modellability have attracted attention among market participants due to the significant implementation challenges and the potentially large increases in market risk capital that banks may be required to maintain as a result of these rules.

Banks have the opportunity, however, to reduce the operational implementation burdens and their market risk capital charges by pooling observable transaction data to evidence that associated risk factors can meet the “real” price standards.

FRTB REAL-PRICE OBSERVATIONS DATA SERVICE

Leverages the premier post-trade market infrastructure for the global financial services industry

DTCC’s FRTB Real-Price Observations Data Service, leveraging the premier post-trade market infrastructure for the global financial services industry, is positioned to deliver an FRTB “real” price observation data service that will assist the industry with demonstrating the modellability of risk factors, leveraging the existing data collection and processing infrastructure already used by DTCC to support global post-trade activity. User owned and governed, DTCC is uniquely positioned to help support banks’ implementation of the new risk factor modellability assessment framework and critical NMRF assessment work.

A primary source of aggregated global “real” price observation data

Processing $1.5 quadrillion in transactions per year and 100 million transactions per day, DTCC is the primary U.S. infrastructure for clearing, settlement and asset servicing. DTCC serves as the centralized clearinghouse for more than 50 exchanges and equity platforms, maintaining multiple data and operating centers worldwide providing strong business continuity and around-the-clock client support. DTCC’s derivatives reporting automates lifecycle management of 98% of all cleared and bilateral credit derivatives globally worth more than $11 trillion and provides transaction reporting for 36 million OTC derivatives trades globally across five asset classes2.

Real-world NMRF assessment results across multiple asset classes

The value proposition of an NMRF impact assessment using “real” price observations data is supported by real-world findings from an internal DTCC “real” price study3, which observed that an industry pool proved a high level of modellability across Credit, Rates and FX and the potential to see relative reductions of non-modellability across multiple asset classes via industry data.

Poised to address our clients’ immediate FRTB data challenges

DTCC’s FRTB Real-Price Observations Data Service will leverage DTCC’s extensive experience in post-trade data collection and processing capabilities to pool data provided to DTCC by participating banks for inclusion in the service. The service will be built upon DTCC’s existing infrastructure links with the participating banks to ensure minimal implementation efforts and system changes. This will also help lower operational risk associated with new technologies and promote high continuity.
KEY FEATURES

• Promote standard product and sub-product taxonomy by aligning with the ISDA Product Taxonomy
• Reduce market fragmentation by creating a primary source of “real” price observation data aggregated globally and across asset classes
• Deduplication of contributed data across the entire dataset
• Configurable definition of “real” price event and application of filters to identify the transactions only associated to the defined “real” price events such as new trade, increase in trade notional, and full or partial trade termination
• Configurable definition of “instrument” that takes into account the risk factor mapping and bucketing
• Assessment of continuous availability of “market observable trades” to evidence instrument-level modellability based on a set of criteria
• Business rules based filtering and drill-down capabilities allow users to specify the level of granularity and attributes to view the transaction dataset
• Support for FpML-based message API as well as file uploading and downloading
• Web-based user interface to query risk factor data and modellability metrics
• Trade volume monitoring function enables monitoring of trade volume changes for a specified instrument and automatically pushed reports to the users with an early indicator or alert
• Audit trail to allow users and regulators to drill-down into the transaction level details

ABOUT DTCC

With more than 40 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 16 countries, DTCC, through its subsidiaries, automates, centralizes and standardizes the processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers. DTCC processes more than 100 million financial transactions daily and serves as the centralized clearinghouse for more than 50 exchanges and equity platforms, maintaining multiple data and operating centers worldwide providing strong business continuity and around-the-clock client support.

DTCC’s post-trade infrastructures support processing and reporting flows for derivatives in the Global Trade Repository (GTR) and Trade Information Warehouse (TIW) and 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).

DTCC’s trade repositories span across three continents and, together with its Trade Information Warehouse, provide trade reporting to around 45 regulators globally in multiple formats across multiple jurisdictions, enabling users to meet their regulatory reporting obligations in a cost-effective and efficient manner via a single platform.

The following table illustrates DTCC’s post-trade processing coverage across jurisdictions and asset classes.
Key data sources by asset class, trade volume and location

- GTR has estimate of 80% global market share
- TIW has an estimate of 98% global market share
- DTC and NSCC combined have an estimated 98% of the U.S. domestic coverage of cash products

<table>
<thead>
<tr>
<th>Type</th>
<th>Source*</th>
<th>Asset Class</th>
<th>Daily Volume</th>
<th>Location</th>
</tr>
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<tr>
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<td>Commodities</td>
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<td>Global</td>
</tr>
<tr>
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<td>GTR</td>
<td>Credit</td>
<td>&lt; 2M</td>
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<tr>
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<td>Equity</td>
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<td>40k</td>
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<td>Structure Finance</td>
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<tr>
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<tr>
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<td>Equity</td>
<td>+115M</td>
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</tr>
</tbody>
</table>

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

FOR MORE INFORMATION

DTCC Data Services team: dataservices@dtcc.com
Visit www.dtccdata.com for additional product details and to learn more about DTCC Data Services entire suite of offerings.

1 https://www.bis.org/bcbs/publ/d352.htm
2 Go to story.dtccdata.com
3 Go to www.dtccdata.com to download DTCC’s FRTB White Paper – September 2017