OVERVIEW

The Fundamental Review of the Trading Book ("FRTB") released by the Basel Committee on Banking Supervision on January 14, 2016, 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 (RPO) Data Service, leveraging the premier post-trade market infrastructure, is positioned to deliver an FRTB RPO data service to assist the industry with demonstrating the modellability of risk factors. The RPO service leverages 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

DTCC has unsurpassed data collection capabilities across all asset classes, including the more illiquid securities in the OTC derivatives market. Each year, DTCC handles more than $2 quadrillion in securities transactions, mitigating risk and enabling markets to operate cost-effectively and efficiently.

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 study. This study proved a high level of modellability across asset classes and the potential to see relative reductions of non-modellability across multiple asset classes via industry data through the use of an industry pool.

POISED TO ADDRESS OUR CLIENTS’ IMMEDIATE FRTB DATA CHALLENGES

The FRTB RPO 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. The RPO service is built upon DTCC’s existing infrastructure links with the participating banks to ensure minimal implementation efforts and system changes. Helping to 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
- 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 message-based API as well as file uploading and downloading
- Web-based user interface with the capability to create a Risk Factor library to query instrument data and modellability metrics
- RPO monitoring function enables monitoring of trade volume and frequency 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
**KEY DATA SOURCES BY ASSET CLASS, TRADE VOLUME AND LOCATION**

DTCC’s FRTB Service leverages DTCC’s global set of financial data and vast infrastructure to pool observable transaction data, helping banks meet framework requirements to optimize balance sheet capital. The following table highlights the volumes and breadth of data utilizing DTCC’s post-trade processing coverage across jurisdictions and asset classes.

<table>
<thead>
<tr>
<th>Type</th>
<th>Source*</th>
<th>Asset Class</th>
<th>Daily Volume</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>GTR</td>
<td>Commodities</td>
<td>+1.5M</td>
<td>Global</td>
</tr>
<tr>
<td>Derivatives</td>
<td>GTR</td>
<td>Credit</td>
<td>&lt; 2M</td>
<td>Global</td>
</tr>
<tr>
<td>Derivatives</td>
<td>GTR</td>
<td>Equity</td>
<td>+5M</td>
<td>Global</td>
</tr>
<tr>
<td>Derivatives</td>
<td>GTR</td>
<td>FX</td>
<td>+6M</td>
<td>Global</td>
</tr>
<tr>
<td>Derivatives</td>
<td>GTR</td>
<td>Rates</td>
<td>+10M</td>
<td>Global</td>
</tr>
<tr>
<td>Derivatives</td>
<td>TIW</td>
<td>Credit</td>
<td>40k</td>
<td>Global (Superset)</td>
</tr>
<tr>
<td>Cash</td>
<td>DTC</td>
<td>Structure Finance</td>
<td>5k</td>
<td>U.S. Domestic</td>
</tr>
<tr>
<td>Cash</td>
<td>NSCC</td>
<td>Corp Bonds</td>
<td>47k</td>
<td>U.S. Domestic</td>
</tr>
<tr>
<td>Cash</td>
<td>NSCC</td>
<td>Equity</td>
<td>+115M</td>
<td>U.S. Domestic</td>
</tr>
</tbody>
</table>

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

With over 45 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 15 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. Industry owned and governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management, data reporting and information services across asset classes, bringing increased security and soundness to financial markets. In 2019, DTCC’s subsidiaries processed securities transactions valued at more than U.S. $2.15 quadrillion. Its depository provides custody and asset servicing for securities issues from 170 countries and territories valued at U.S. $63.0 trillion. DTCC’s Global Trade Repository service, through locally registered, licensed, or approved trade repositories, processes over 14 billion messages annually.

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

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