

UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

PUBLIC ROUNDTABLE TO DISCUSS
SWAP DATA RECORDKEEPING AND REPORTING REQUIREMENTS

Washington, D.C.

Friday, January 28, 2011

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A G E N D A

Welcome Remarks and Overview of Current landscape
for UCI

For CFTC:

GARY GENSLER
Chairman

DAVID TAYLOR
Special Counsel, Division of Market Oversight

IRINA LEONOVA
Financial Economist, Division of Market Oversight

ANDREW HINZ
Deputy Director Policy and Planning

Panel 1: Technical Considerations Concerning
Unique Counterparty Identifiers (UCIs)

KEN TRAU
GS1

MARK BOLGIANO
XBRL

KEN HAASE
NFA

PAUL JANSSENS
SWIFT

FRANCIS GROSS
Central European Bank

JOHN MULHOLLAND
EDM/Fannie Mae

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Panel 2: Operational Considerations Concerning
Unique Counterparty Identifiers

RONALD JORDAN
Avox/DTCC

SCOTT PREISS
CUSIP

PETER MARNEY
Thomson Reuters

GEORGET HARRINGTON
Bloomberg

BRAD BARTON
swift

ED CHIDSEY
Markit

OLA PERSSON
FINRA

Panel 3: Implementation Considerations Concerning
Unique Identifiers

PAUL PUSKULDJIAN
Citi

ARTHUR MAGNUS
JP Morgan

MELISSA GOLDMAN
Goldman Sachs

TODD SULLIVAN
Morgan Stanley

STUART McCLYMONT
Deutsche Bank

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LINDSAY YEE
NYW Mellon

ALLAN GRODY
Financial InterGroup Holdings

BRIAN HOLT
Bank of America

RAYMOND TUBRIDY
State Street

Panel 4: Unique Product Identification (UPI)

KULBIR ARORA
Goldman Sachs

BRUCE TUPPER
ICE

SUNIL CUTINHO
CME

ADAM LITKE
Bloomberg

KEN HAASE
NFA

ELEANOR DREW
Citi

ED CHIDSEY
Markit

OLA PERSSON
FINRA

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Panel 5: Unique Swap Identification (USI)

SUNIL CUTINHO
CME

JONATHAN WILLIAMS
Tradeweb

BRUCE TUPPER
ICE

RAF PRITCHARD
TriOptima

ARTHUR MAGNUS
JP Morgan

PETER AXILRODE
DTCC

Panel 6: Master Agreement Library and Portfolio
Data Warehouse:

MICHAEL WILL
docGenix

ROBERT PICKEL
ISDA

ARTHUR MAGNUS
JP Morgan

PAT TROZZO
Reval

RAF PRITCHARD
TriOptima

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A G E N D A

PETER AXILROD
DTCC

MELISSA GOLDMAN
Goldman Sachs

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1 P R O C E E D I N G S

2 CHAIRMAN GENSLER: I'm doing a little
3 stand-in here for Rick Shilts, who is going to do
4 the intro. Rick is the head of our Division of
5 Market Oversight. Let me first just greet
6 everybody. Thank you and the CFTC staff for
7 arranging this roundtable on these critical
8 issues. Rick would have been here, but given the
9 ice and shoveling and everything, yesterday he
10 broke his wrist. So, he's fine. He's home. He's
11 alright. But I'm the stand-in.

12 More than that -- thank you all for
13 doing this. I think we have six panels today on
14 very important issues to a proposed rule that
15 we've put forward. I think some of our colleagues
16 and friends from the SEC are tying in by phone and
17 listening. I know this will be very helpful for
18 the SEC. We are hopeful, I think, that some of
19 the folks from the OFR over at Treasury, which has
20 been so helpful with this on data collection, too,
21 is also tying in either here directly or
22 listening.

1 But the effort really is to move forward
2 with the proposal. I think a comment period
3 closes February 7th, so everything that goes on
4 here will be put in a transcript and be part of
5 the comment period as well -- and comment file.

6 But more than that, it's about unique
7 identifiers for three areas, as you know. For
8 counterparties. For products. And what we call
9 "swaps" or what I call "transactions." But I know
10 they are swap IDs. And somehow, as the whole
11 financial industry would be relying on these
12 unique IDs for counterparties, products, and swaps
13 to get the best advice on implementation -- on how
14 to bring this all together.

15 So with that I think I've probably
16 exhausted my role here and turn it over to David,
17 Irina, and the team -- and thanking everybody who
18 is going to participate today.

19 MR. TAYLOR: Thank you very much, Gary.
20 I need to ask the court reporter. Are you set
21 with names?

22 COURT REPORTER: [Inaudible.]

1 MR. TAYLOR: Okay, good. Well, we will
2 dive right in. Thank you all for being here
3 today. It's going to be very helpful for us to be
4 sure that we get the technical aspects of these
5 issues that we're going to talk about today right
6 in the final rule.

7 I thought I would begin by giving a
8 brief overview of the current landscape regarding
9 unique counterparty identifiers, and then we'll
10 jump right in to the first panel.

11 Over the last decade virtually all
12 financial sector stakeholders have come to
13 recognize the need for universal, accurate,
14 trusted methods of identifying legal entities that
15 are parties to financial transactions. A unique
16 counterparty identifier, sometimes known as a
17 "legal entity identifier," will be a crucial
18 regulatory tool for enabling data aggregation
19 across counterparties, asset classes, and
20 transactions. That will enhance regulators'
21 ability to monitor and mitigate systemic risk,
22 prevent market manipulation, enforce position

1 limits, and exercise resolution authority.

2 Full realization of systemic risk
3 mitigation and transparency, which are fundamental
4 purposes of the Dodd- Frank Act, cannot be fully
5 achieved without mandatory use of entity
6 identifiers in swap data reporting. And the
7 identifiers would also have great benefits for
8 financial entities in terms of transaction
9 processing, internal recordkeeping, compliance,
10 margin calculation, due diligence, and risk
11 management.

12 At present no industry-wide entity
13 identifier that is sufficiently unique,
14 persistent, comprehensive, and open is available
15 to serve as an industry-wide standard. In the
16 absence of a universal entity identifier, vendors
17 and firms and regulators have created a variety of
18 identifiers. One of my colleagues at the Fed
19 sometimes refers to these as "little silos of
20 excellence." But they are separate from each
21 other. This creates inefficiencies and expense
22 for firms and can result in costly errors. And it

1 also presents obstacles to regulators' ability to
2 see a comprehensive picture of the market. Such
3 partial solutions are often proprietary,
4 restricted in use and redistribution, limited in
5 scope.

6 We believe that at present we have a
7 window of opportunity to create an open entity
8 identifier that solves these problems. As noted
9 in the proposed rule, the Commission believes that
10 optimum effectiveness for a legal entity
11 identifier would come from creation of entity
12 identifier system on an international basis
13 through a voluntary consensus standards body. The
14 proposed rule sets out principles that the
15 Commission believes must govern such a system. It
16 also calls for reporting of information concerning
17 affiliations of entities that receive a legal
18 entity identifier.

19 The purpose of our first three panels
20 today is to explore the technical, operational,
21 and implementation considerations that the
22 Commission should address concerning unique

1 counterparty identifiers in its final data
2 reporting rule.

3 And with that, let's jump into the first
4 panel. I would remind you all, these microphones
5 are "push to talk" so when you would like to talk,
6 push the button -- the little red light will come
7 on. When you are done, push again to turn it off.
8 And if you can, don't let your BlackBerry or phone
9 be on the table because they do feedback.

10 We do have, in a way, an extra panelist
11 with us by phone this morning who is going to
12 speak to us now as we begin. Francis Gross from
13 the European Central Bank.

14 MR. GROSS: Hello. Good morning. I'm
15 very pleased to be with you and I look forward to
16 hearing the debate and contributing where I can.

17 MR. TAYLOR: We appreciate your being
18 here.

19 MR. GROSS: Thank you.

20 MS. LEONOVA: Okay. I guess we are
21 ready for our first panel. Before we start I want
22 to thank CRTC staff for making it happen. Anna

1 Schubert and J.P. Rothenberg. Our administrative
2 staff Margie Yates, Veda Allen and Joshua Griffin
3 and Mike Johnson.

4 The first panel has more of a technical
5 aspect for unique entity identifiers, or commonly
6 known as "legal entity identifiers." I believe
7 most of you have a list of question that we would
8 like to discuss, but it is mostly for guidance
9 rather than "let's make it happen."

10 So, I guess let's start at the first
11 one: Are there any existing identifiers viable
12 for use as UCIs or LEIs? What is the opinion, and
13 what are the solutions?

14 MR. TRAUB: I would be happy to speak
15 first to that one. I represent GS1 US, which is
16 part of the GS1 organization. GS1 is a global
17 voluntary standards consensus body. We've been in
18 the business of developing standards for supply
19 chains across a number of different sectors for
20 nearly 40 years. Those of you who have seen
21 barcodes on consumer products have seen the most
22 visible aspect of what the GS1 system is, but

1 that's just one type of identifier in a whole
2 system of identifiers that we have.

3 And in fact, one of the existing, widely
4 adopted standards within the GS1 system is an
5 identifier for legal entities. It's an identifier
6 that we call the "GLN" and it is a 13-digit
7 identifier, which can be used to identify a legal
8 entity, whether that be the parent of a
9 corporation or a subsidiary or any other legal
10 entity that requires identification.

11 The GS1 system is fully international.
12 It's supported through a network of 108 member
13 organizations, which is GS1's term for what are
14 effectively operating arms of the GS1 standards
15 body in 108 different countries around the globe.
16 There's also a global office in Brussels that
17 supports smaller countries that don't have a local
18 office of their own.

19 The GS1 system is designed to allow
20 identifiers to be globally unique and persistent
21 throughout the world, and that's done through
22 allocation of the numbering space to the different

1 member organizations so that they can be
2 distributed locally. And we can talk more about
3 the technical details, but I'll just stop there
4 and say that we believe that we believe that that
5 identifier would be eminently suited as a UCI, and
6 we believe it meets all of the requirements that
7 have been set forth.

8 MR. BOLGIANO: I'll be glad to go next.
9 My name is Mark Bolgiano. I'm here actually with
10 three hats on -- as a member of XBRL US Board of
11 Directors, as a member of the ANCI-X9 Board of
12 Directors, which is the U.S. jurisdiction of ISO
13 for financial standards -- particularly ISO 2022,
14 and as the chair of ISO Working Group 5, which is
15 looking at semantic technologies to get
16 harmonization across standards.

17 I should also add that up until December
18 I served as the Founding CEO of XBRL US, which
19 came out of leadership from the SEC and FDIC and
20 the use of standards for regulatory reporting, and
21 is now being led in industry by DTCC, SWIFT, the
22 accounting profession, and the technology

1 profession.

2 We've obviously -- now that the SEC has
3 implemented data standards for the origination and
4 the issuance of reporting -- we've encountered the
5 identifier many times as a limiting factor in the
6 effectiveness of effective reporting and intake of
7 data into various systems. And we have really
8 addressed this by very aggressively pursuing the
9 ISO standards that apply, because they met the
10 criteria that we found were important. One is
11 maturity of technology and the maturity of its
12 use. The other is the system of governance -- a
13 stable and strong global system of governance.
14 The other was the economic model involved,
15 particularly where it applies to the intellectual
16 property in any identifier. And really the
17 aggregate effect of all these, which is access,
18 really. Access by regulators, access by the
19 public, access by the partners who rely on an
20 identifier for confidence in the information.

21 So, therefore, we are strongly
22 recommending that the BIC standard, not only as it

1 exists but as it will evolve under the governance
2 that I've referred to, represents the best legal
3 entity identify option.

4 MR. JANSSENS: I would just follow on to
5 what Mark was just saying. So, we also believe
6 from a SWIFT perspective we are the registration
7 authority for BIC. BIC is in use in the financial
8 industry for more than 30 years -- is already
9 identifying entities in transactions and
10 counterparties in transactions for a long time.
11 So yes, we believe that an existing identifier can
12 fulfill the role of legal entity identification.

13 We are bringing changes to the ISO
14 standard. We are in the process of making a
15 revision of the standard so that it even better
16 fits the needs and the requirements as they have
17 been described in the requirement from the CFTC.
18 So that there will be a BIC only for legal entity
19 identification, so that there will be a
20 distinction between the BICs that have been used
21 so far and the BICs that will be used for legal
22 entity identification. No confusion between the

1 two. Therefore we think that can serve the
2 purpose.

3 MR. HAASE: I'm Ken Haase. I'm with the
4 NFA. Those at the Commission I'm sure you know
5 what NFA is and how long we've been working with
6 an NFA ID. Over 25 years we have been assigning
7 these through out registration system. And to
8 date we have handed out approximately 450,000.
9 Currently there are about 55,000 in use that are
10 current at the moment. And we have had this
11 system in place. We feel that it is a fairly
12 strong system. We have given the firms the
13 ability to go in and electronically assign these
14 for the individuals that work for these firms.
15 And I guess the one think I would add on there,
16 from our point of view, is also the ability to go
17 in an ensure that it is unique to the individual
18 and the underlying functions that you need in that
19 system to go through and make sure that you are
20 not duplicating these IDs, either for firms or for
21 individuals.

22 MS. LEONOVA: Going forward, you know

1 what a great job you do individually. Now let's
2 try to get together and define what you can see
3 that to be in theory -- desired and optimal
4 structure of the identifier -- without referencing
5 your particular system.

6 MR. BOGLIANO: I'll be glad to start. I
7 think that my input would be on the question of
8 centralization -- on the assignment and validation
9 that I think that a lot of the questions we've
10 heard asked on this subject presume a certain
11 level of centralization. And speaking as a CIO
12 for 25 years, and someone who is now just returned
13 back to that type of role, I can tell you that
14 today's technology environment probably will not
15 tolerate what has historically been the optimum
16 choice, which is absolute centralization of
17 validation, storage, registration.

18 If you look at the models that are
19 working today, whether it's for IP addresses or
20 for web URLs, while there certainly has to be a
21 central authority -- there has to be an
22 authoritative source -- I would say that

1 "federation" is a concept that should be
2 considered in any solution. Everyone at the table
3 here has provided a certain level of trust and
4 confidence through the numbers that are being
5 assigned and validated, ensuring that they are
6 unique going across supply chains.

7 My input would be that, while we do need
8 a central authoritative source, that the
9 federation of the assignment of numbers -- and
10 again with the objective of access being central
11 to the thinking -- is very important. The other
12 concept, and then I'll conclude, is that we not
13 try to give the numbers any payload of
14 information. The numbers should be abstract and
15 unique. I think most models today that try to
16 include location codes, branch numbers -- I don't
17 think in the long term those are as sustainable.
18 And this is what I'm referring to in the evolution
19 of the BIC number, not to mention the specific.
20 But I think all of the options being examined,
21 that's a general trend. So that's my input.

22 MR. TRAUB: I'd like to amplify some of

1 the comments that Mark made. I think we're in
2 complete agreement as to the principles there, and
3 I'll just support that through some experience
4 that our organization has had in assigning unique
5 identification in an international environment in
6 particular.

7 I think decentralization is absolutely
8 essential for success in an international
9 environment simply because -- particularly when
10 we're talking about legal entity identification in
11 the financial industry -- for many nations this is
12 an issue of national sovereignty. And there are
13 different laws and regulations that apply in each
14 jurisdiction, and it's only through a federated
15 model that one can accommodate all those, while
16 still creating a framework in which there is
17 standardization worldwide and therefore the
18 ability to have that single unique identification.

19 Typically the way this is achieved is by
20 having a global numbering space that is then
21 divided in some way across regulatory regimes, to
22 preserve uniqueness worldwide, and then within

1 each of those divisions, allowing the local
2 regulators or authorities or issuing agencies to
3 work within that space and then apply any local
4 considerations that apply there.

5 We also believe there is merit in taking
6 the decentralization concept one step further and
7 allowing individual counterparties to ultimately
8 be the issuers of individual identifiers by
9 allocating a range of numbers to companies that
10 need it. Then they can issue their own
11 identifiers and then register them in a separate
12 operation.

13 And the decoupling between the issuance
14 of the number itself and the registration of
15 associated reference data we think is also a very
16 important technical ingredient because it helps
17 facilitate different types of expertise. One
18 organization responsible for maintaining the
19 numbering space and being very neutral -- letting
20 other organizations that have deep expertise in
21 the data and in financial services handle the
22 registration of the accompanying reference data.

1 And that's a feature of the GS1 system as well.

2 I think I would also just amplify the
3 points that Mark made about what we call the
4 "non-significance of the number," Meaning no
5 information or intelligence embedded in the
6 number. I think we can point to many examples
7 from experience that show that any attempt to
8 embed intelligence in the number usually runs into
9 pitfalls further down the road. And so we would
10 also support that as a technical characteristic
11 that's important. Thank you.

12 MR. TAYLOR: Let me ask a question to
13 follow up. If you have a system that
14 decentralizes the issuance of the identifiers
15 themselves, can you elaborate a bit on how you
16 would ensure that they all stay unique?

17 MR. TRAUB: Yes, it's actually a pretty
18 simple principle. In the case of the GS1 system,
19 the way that works is that when the numbering
20 space is divided among the various national and
21 regional authorities, we use the first few digits
22 of the number to ensure uniqueness. So, numbers

1 issues in the United States begin with a "0".
2 Numbers in the U.K. begin with a "5", and so
3 forth. Very similar to what you see with
4 International Dialing Codes for telephones.

5 That principle extends downward as you
6 decentralize through to individual companies
7 issuing identifiers. The key there is not to try
8 and associate any intelligence with that. You use
9 that as a means to divide up the issuance of the
10 numbers, but what you do not do is say that once a
11 number is issued you can then parse out those
12 components and try to learn who owns it. That has
13 to be done through associated reference data.

14 What all that dividing up the number is,
15 is a means for decentralizing the issuance of it.
16 And in the GS1 system, that's done actually with a
17 variable-length system, so the division lines
18 between the different parts are somewhat flexible,
19 which allows capacity to be tuned as you
20 distribute the codes through the world.

21 MR. HAASE: I guess I would just echo
22 both what Mark and Ken said in regards to keeping

1 the intelligence out of the number. Just about
2 any time you've gone and built a system and you
3 thought this is exactly -- we've figured out
4 everything that could possibly go in that number,
5 about a week after it goes live you find that one
6 item that is not included or something else comes
7 up. So yes, definitely keep that intelligence out
8 of it.

9 MR. JANSSENS: Yes. Same comment.
10 Getting out all the intelligence from a code is
11 essential, because what counts when a code has
12 been assigned, that the code does not change
13 because something is happening. And that's really
14 important and that's what should be considered is
15 that not only there is no intelligence in there,
16 but also that the code is perpetual and persists
17 whatever happens to the entity which has been
18 identified. When something is happening to the
19 identity, that must be processed through the
20 attributes, the reference data which is attached
21 to the number, not in the number itself.

22 MS. LEONOVA: Can we discuss what

1 reference data you consider to be important and
2 what characteristics it has to have?

3 MR. JANSSENS: Well the characteristics
4 are the attributes that we need to consider, and
5 in terms of attributes there are a certain number
6 of unique attributes that will enable
7 identification of the entity itself, which is its
8 legal name, which is its registered address in the
9 country of incorporation. Those is the basic
10 information that is needed.

11 Next to that you need to have data base
12 management attributes, which enable to sort out
13 when the code has been created, when the code has
14 been validated, when it has been updated, when it
15 eventually expires -- because a code can expire if
16 the entity disappears. But those elements will
17 help make sure that by looking across all the
18 entities you can identify them uniquely and that
19 there is no duplication of entities so that the
20 code is unique.

21 MR. BOLGIANO: What Paul is describing
22 is a discipline that's been awhile for a while,

1 called "master data management." This is marked
2 by identity, provenance of the data -- as Paul has
3 pointed out about the chain of custody, and then
4 the security and privacy of that data that results
5 from good management of master data and reference
6 data.

7 And I think that the challenge of course
8 comes, first, when the reference data changes,
9 because generally the reference data is not a
10 transaction, it's an entity. So changes to that,
11 such as -- we're actually involved in work right
12 now with corporate actions. Corporate actions are
13 changes to the securities master. And also when
14 these are referenced across large networks.

15 And so a huge network like SWIFT, this
16 is why, if you'll forgive me, I think one of the
17 big reasons why SWIFT is in the standards
18 business, because the standards applied to that
19 reference data is so key to the integrity of the
20 movement of information across networks. And when
21 I say "networks" I don't mean the cables,
22 necessarily. I mean the network of business

1 actors, investors, general public -- for
2 transparency here in the United States, and
3 regulators.

4 MR. TRAUB: I would just add to that
5 that obviously we need to understand exactly what
6 reference data we wish to associate with
7 identifies. I think equally important is
8 attention to the process by which those
9 determinations are made. And you can understand
10 that by considering that the answer to the
11 question "What is an appropriate legal entity
12 identifier?" -- the answer to that question is one
13 that we hope is very stable over time. The
14 question of "What reference data do we need
15 associated with an identifier?" is an answer that
16 evolves over time, as business conditions change,
17 as new requirements emerge for understanding what
18 that data means.

19 And so therefore we believe it's very
20 important to have a very robust global standards
21 process for establishing the definitions of what
22 reference data is to be associated with

1 identifiers. In GS1 we have experience developing
2 reference data for consumer products and other
3 types of supply chain entities. And we have a
4 global network that allows that data to be
5 synchronized worldwide through a federation of
6 different databases. And we bring end users
7 together to develop the standards for exactly what
8 that data is.

9 One of the things we've learned in that
10 is that one has to balance core needs for
11 reference data that are shared among all
12 participants for virtually all applications. And
13 for legal entity identification those are basic
14 things such as name, location, contact
15 information, relationship to other legal entities.

16 But then beyond that you have more and
17 more specialized data that is maybe application
18 specific. So perhaps there's reference data that
19 applies to legal entities who are broker-dealers
20 as opposed to different information that would
21 apply to a different type of entity. It's
22 important to have a very extensible and manageable

1 modular structure there, because in order to
2 actually get good reference data -- data that is
3 actually supplied accurately by the participants
4 -- one has to keep it as simple as possible, but
5 not too simple that it fails to meet business
6 requirements.

7 MS. LEONOVA: May I ask follow up
8 questions? How do you ensure extensibility of an
9 identifier?

10 MR. TRAUB: Well, for the identifier
11 itself -- and that's a separate question from
12 extensibility of the reference data -- but for
13 extensibility of the identifier the basic
14 principle we believe is to reserve a part of the
15 structure for future expansion. So that may mean
16 that there's a first digit that has an unassigned
17 value that can be used to indicate an extension in
18 the future. There are a number of techniques for
19 doing that that are fairly well established.

20 To give an example of our experience
21 doing that, the UPC code that you see on products
22 began as a 12-digit number in North America, and

1 then when it expanded to worldwide use, the
2 capacity was too limiting, and so a 13th digit was
3 added. And the way the extensibility worked was
4 that digit was implicitly zero in North America
5 where it didn't exist. And so zero was not
6 allowed to be the first digit anywhere else in the
7 world, and that way the 12-digit and 13-digit code
8 could co-exist for a period of time. And then
9 there was a period of controlled migration and a
10 sunrise date at which information systems around
11 the world were required to accept both forms. And
12 that's actually happened twice with the product
13 code. Our legal entity identifier has not
14 required that extension because as of now it has
15 pretty large capacity compared with anticipated
16 requirements. But that's the basic principle.

17 MR. JANSSENS: From an extensibility
18 point of view of the code I think you need to make
19 sure that the code from the start is large enough
20 to cover the whole scope, because otherwise you
21 start to have intelligence in the code itself. So
22 I think that the code must cater for what is

1 needed from the beginning. Later on you have the
2 extensibility in the attributes. If the market
3 evolves -- if the industry requirements are
4 changing, then you can manage that with the
5 attributes which are attached to the code, and you
6 don't have to work with changes in the code
7 itself, which from a data base point of view --
8 from a data base management point of view -- if
9 you have built your data model based on a certain
10 structure of the code itself, you have to change
11 it because that is your root key.

12 So we think that the code should no
13 longer change once it has been defined. But the
14 attribute, you have all the flexibility that you
15 want -- to add attributes, to remove attributes,
16 or change them as you see fit going forward.

17 MR. BOLGIANO: I'm just going to add a
18 very brief remark, which is general although
19 relevant to this, and relate the experience of the
20 XBRL introduction to issuers in the corporate,
21 publicly traded world -- mutual funds -- that what
22 you're hearing discussed here reflects a

1 combination of mandate and market acceptance. And
2 in fact we found that one without the other has a
3 very reduced chance of success.

4 And so I would urge the CFTC, in
5 considering the plans to -- while it's possible to
6 mandate a system once a system is determined, that
7 more than half the battle is in thinking about
8 what contributes to market acceptance -- to the
9 user acceptance here. And your use of the word
10 "stability" -- even a perceived lack of stability
11 will have a drastic impact on market acceptance.

12 MR. HAASE: Let me just touch on two
13 things. In whatever system the Commission ends up
14 going with, you have to understand and appreciate
15 the amount of time it will take the other systems
16 to accept this new number and what has to be
17 modified in those systems to allow everyone to
18 adjust to it. That's number one.

19 And number two, the other thing, is the
20 security behind it. For people to accept the
21 system, there are going to have to know that the
22 data they are putting into it is secure. They're

1 going to want to feel very comfortable before they
2 start giving out all this information. What
3 information varies on which country you are
4 dealing with. But the security, and then once
5 gain the time to modify other systems to accept
6 this number.

7 MR. TAYLOR: Let me ask you a follow up
8 question. Talk a bit about the time you think
9 would be needed.

10 MR. HAASE: The time needed. And that's
11 going to depend on the system you are dealing
12 with, so I surely can't speak for anyone else
13 sitting around this table. But the time needed
14 depends on the number. You're going to have to
15 have the ability to -- if you take one system and
16 try to impose it on a second system, there's going
17 to be a big matching process. Now it depends on
18 how many people and entities you're dealing with
19 -- to understand that all the Ken Haases over here
20 and the Ken Haases over here are actually the same
21 person, and make that match.

22 So the time is going to be dependent on

1 the size of the system and also the resources
2 behind going through and doing that match. So
3 it's very hard to put a specific timeframe on it.

4 MS. LEONOVA: But going back to this
5 implementation plan, what characteristics do you
6 believe a mandated code has to have in order to be
7 accepted comparable to -- adjustable to current
8 systems?

9 MR. TRAUB: I think it's critically
10 important that the timelines and the procedures
11 for that period of migration have to be developed
12 with consultation from the stakeholders. And
13 really, you have to get a lot of input from the
14 stakeholders involved to ensure that what is
15 actually mandated is ultimately doable, and doable
16 in an effective manner.

17 Our experience in doing various sunrises
18 of new codes and other things of that nature has
19 borne this out time and again.

20 MR. JANSSENS: I would build on what has
21 been said, and also referring to some of the other
22 questions that you have in there -- do we use an

1 existing code or not? Or should we start with a
2 totally new code? If you start building from an
3 existing standard, from an existing scheme, you
4 get adoption faster. And the processes are in
5 place, so the timeline will be shorter if you
6 start with something that exists already.

7 MS. LEONOVA: How much shorter?

8 MR. JANSSENS: That depends on the
9 quantity, and probably what Ken has said as well.
10 Depending on how many entities you need to
11 identify, if you talk about 10,000 or 100,000 this
12 is business as usual. If you talk about millions,
13 that needs to be a different perspective.

14 So if we talk about in the 50 to
15 100,000, it can be done in a couple of months -- a
16 handful of months, I mean, 5, 6 months, whatever.
17 If you talk about millions, I think we need to
18 have some more time to make sure that the process
19 is robust. The time is one thing. I think the
20 important element is quality. Because if you
21 launch something, it must be bulletproof from the
22 start, because as Mark was saying, adoption is

1 important as well. If you have leaks in there,
2 you will have resistance to usage of it, and you
3 have the risk that it's not global, that it's not
4 unique. And then you need to start to cleaning up
5 what has been done.

6 So I think it's more important to look
7 into making sure that starting small with good
8 quality -- I mean, 100 percent quality -- and then
9 build from there. So it's at the first stage and
10 the first building block, and then contribute to
11 that going forward.

12 MR. TRAUB: And I think in addition to
13 that there has to be a lot of support on the
14 ground from the agencies involved to support
15 end-users in understanding the new rules,
16 understanding how to adopt so that -- a forum for
17 sharing experience so that it gets easier and
18 easier as more and more companies join that
19 adoption process.

20 And if the goal is to create an
21 international standard -- an
22 internationally-accepted identifier -- then that

1 support network has to be available on a global
2 basis and available in a way that is tailored to
3 the local market conditions and cultural
4 conditions and language conditions that exist in
5 each of those places around the world.

6 MR. BOLGIANO: At the risk of
7 oversimplifying, I'm going to say it boils down to
8 usability and accessibility. Five hundred million
9 Facebook users have created a unique identity in
10 the last three years. Five hundred million. You
11 know, that's a reflection of a certain level of
12 usability and access. Again, I know I'm
13 oversimplifying here.

14 You can impose a mandate and it could
15 take forever. Or you can consult with
16 stakeholders, build on an existing standard that
17 already has global reach, and you could find the
18 timeline much shorter. This is a really difficult
19 question, and actually I was looking forward to
20 watching the operational and implementation panels
21 squirm over this question. I'm disappointed that
22 we got it first. [Laughter.]

1 MS. LEONOVA: Maybe a naïve question,
2 but where do you see more problems? On the
3 hardware side or software side?

4 MR. HAASE: Software.

5 MR. BOLGIANO: I'm going to point out
6 the obvious.

7 MR. TRAUB: Yeah.

8 MR. BOLGIANO: Hardware is trivial.
9 This is not a hardware problem.

10 MR. HAASE: I agree.

11 MR. JANSSENS: Yeah.

12 MR. TRAUB: You know, the quantity of
13 legal identifiers -- legal entity identifiers --
14 is miniscule compared to the quantity of trades,
15 for example, that happen every day. So the volume
16 of data that we're talking about here, from the
17 financial industry's perspective, is not a stretch
18 at all. The difficulty here is in the business
19 processes around adoption of something new,
20 migration of systems, all of those things. And
21 that's really a software problem and a people
22 problem, and not so much a hardware problem.

1 MR. JANSSENS: Yeah, I would concur.

2 MR. GROSS: If I may come in. Francis
3 Gross from the ECB. Just a short remark. I think
4 that observing the industry you see that they just
5 know where to converge, in terms of standards.
6 And once a standard is backed by international
7 institutions and by law in several countries for
8 mandatory use in reporting, the industry will know
9 where to converge and then it's just about the
10 normal update of processes and system over time.
11 It will take time to migrate, but once it's there,
12 they will go to it.

13 MR. JANSSENS: Yes, I confirm. It's not
14 a software or hardware, it's a process. It's the
15 analysis of the data on the one side, as I
16 mentioned, that the quality is there, so you need
17 to have robust processes to analyze and make sure
18 that you don't duplicate entities or codes for
19 entities. That's the most important on the
20 allocation of codes. And then on the usage of the
21 codes, it's to make sure that the processes and
22 the systems have been adapted to in-take that code

1 and to transport it so that it can fill the
2 requirements of reporting.

3 MR. BOLGIANO: First, I want to say
4 hello to my friend Francis, whose speaking to us
5 from Frankfurt, and to recognize that two years
6 ago he was a block away from here in my office
7 talking about the concept of a "data utility."
8 And I really think that's a very good description
9 that captures a lot of these characteristics that
10 you're trying to determine in this roundtable.

11 Francis, correct me if I'm wrong, but I
12 think one of the first things that we discussed as
13 a limiting factor to an effective data utility is
14 identity management.

15 MR. GROSS: Yes.

16 MR. BOLGIANO: And the identity of
17 entities. Now we're talking about a utility
18 that's much like the electrical grid in the U.S.,
19 in that there won't be -- whether because of
20 national boundaries or for just practical
21 operational purposes -- it is going to be a
22 network. It is going to be distributed.

1 The things that are built into networks
2 that are resilient now, I think, are worth
3 examining to apply -- even if they are translated
4 from other contexts -- whether it's power or phone
5 or telecommunications -- into this. It's the same
6 kind of replication, validation, authentication.
7 But also the ability to decentralize and federate
8 as part of that decentralization.

9 The Internet was created to survive a
10 devastating attack on infrastructure, and it
11 evolved into something that's now serving a huge
12 public good. I think there's just as much
13 potential for the SEC and the CFTC and Treasury
14 with OFR to create just as big of a utility that
15 will have just as much of a profound effect on our
16 economy.

17 MR. JANSSENS: I link to that also the
18 Europeans. Because you mentioned the U.S.
19 regulators, but also together this is a global
20 solution. It's globally adopted. It is to be
21 combined and converged, because the firms which
22 will have to comply with this, they are also in

1 all areas. So it needs to be one system mandated
2 globally by the regulators so that the firms can
3 adapt. And that they only have one system to
4 adopt.

5 MR. GROSS: Perhaps to that point, in
6 his speech on 19 October 2010 at the ECB
7 Statistics Conference, Jean-Claude Trichet, the
8 President of the ECB, called for a reference data
9 utility that would be operated on the basis of an
10 international agreement. That could be something
11 now in reach if we take the OFR as the first step,
12 and similar efforts in Europe in the legislative
13 sphere -- if that can come to fruition, others
14 will join as well. It can grow in a modular
15 fashion.

16 And then the technical structure of the
17 data bases, whether they will be structured as a
18 network or whether there will be a central
19 repository somewhere, that matters less, as long
20 as there is the assurance that the data is
21 strictly standardized -- not just harmonized --
22 but strictly standardized across the board.

1 MS. LEONOVA: And I want to follow up on
2 John Mulholland. Are you still on? John? Okay I
3 guess we lost somebody in the process. He got
4 excited.

5 Okay do we have any other issues you
6 think we should discuss to the interests of our
7 panel?

8 MR. BOLGIANO: No questions. Thank you.

9 MR. TRAUB: Thank you.

10 MR. HAASE: Thank you.

11 MR. JANSSENS: Thank you.

12 MR. TAYLOR: We're a bit ahead of
13 schedule, but I guess that's better than the
14 alternative. Let's switch to panel two. Would
15 the panel two people come up.

16 All right. This is our second panel.
17 We're moving to Operational Considerations
18 Concerning Unique Counterparty Identifiers. Some
19 of this was touched on by the first panel, but
20 that's nature. Let's move first of all to the
21 question of what utility or registration authority
22 can assign and maintain UCI in compliance with the

1 principles in the proposed rule and on the
2 timeline of our final rule.

3 MR. CHIDSEY: I guess I'll start. This
4 is Ed Chidsey from Markit Group. I'm responsible
5 for our pricing and reference data businesses. So
6 just to start off, I'd like to just thank the
7 Commission for the invitation to participate in
8 the panel today.

9 As many of you may or may not know,
10 Market has deep experience in the entity and
11 reference data identification space and has played
12 a critical role in providing identification
13 reference data for risk management trade
14 processing settlement purposes throughout the
15 financial markets and primarily in the OTC
16 markets. And we're looking forward to
17 participating in today's discussion and learning
18 from the other panelists and hopefully
19 contributing based on our experience.

20 So with respect to this particular
21 question, with proper governance and oversight,
22 our view is that really any third party service

1 provider, whether it be a data vendor or a utility
2 that has experience in the entity identification
3 space, could play this role. Again, the key here
4 would be adhering to whatever standards are set,
5 having some sort of an industry and regulatory
6 oversight committee that would be able to
7 participate and monitor the operation of such
8 entity and see that it adheres to the guidelines
9 that are agreed.

10 MR. HARRINGTON: George Harrington from
11 Bloomberg. Also thank you very much to the
12 Commission for the invitation to appear here.

13 We work as a provider of execution
14 services and more likely than a swap execution
15 facility. It is very attuned to the needs as far
16 as the unique universe of users that are out
17 there, not just from a data standpoint but from an
18 actual execution standpoint as far as identifying
19 who the counterparties are to a trade.

20 When you move to an execution mode in
21 today's world, obviously in OTCs derivatives and
22 other asset classes, it's a very bespoke market,

1 and I think the move towards a unique identifier
2 system is something that will increase efficiency
3 and certainly assist with vendors like ourselves
4 and our competitive being able to track and
5 certainly to identify from whatever our reporting
6 needs are also required, put information out to
7 the market as required by the legislation.

8 MR. MARNEY: Maybe I'll finish out this
9 side of the table. Pete Marney from Thomson
10 Reuters. Again, thank you very much.

11 So I don't think any of the existing
12 identifiers are fit for purpose in the guidelines
13 that have been laid out. They would require a
14 fair bit of change, which is possible, but I would
15 like to raise the point though that achieving the
16 guidelines of no intelligence, extensible
17 permanent, which means that you never delete and
18 so forth, is relatively straightforward to
19 achieve; and I think that can be done, but as soon
20 as you do that, then you're putting all the burden
21 on the reference data that sits behind it, the
22 data model, the business rules, the presentation

1 of the data, the relationships that come with the
2 data. In effect then, the unique identifier
3 really just become the tip of the iceberg, and so
4 much more of it has to happen below the line. I
5 think that's what really merits the most focus and
6 the most attention in this because that's what is
7 going to drive the value.

8 Doing that in a federated way I think
9 would be extremely difficult, and it's very
10 difficult to manage if you have all the individual
11 participants who are responsible for managing that
12 content. Not to say that necessarily centralized
13 is the way to go, but having it all federated
14 makes it very, very difficult to do.

15 MR. GROSS: Francis Gross. Just very
16 briefly, I tend to agree with the last statement.
17 However, the process is organized, it would be
18 much better if every data set went through an
19 obliquity point of passage, a unique one, wherever
20 it comes from, wherever it goes after.

21 MR. PREISS: Thank you. I'm Scott
22 Preiss. I'm vice president for CUISP Global

1 Services, and I'll follow suit with my colleagues
2 and thank you for the opportunity to be heard
3 today.

4 I'm really here to share our experience
5 as being a numbering agency in the U.S. and Canada
6 and 35 other countries for the past 40 years to
7 provide unique identification for issuers,
8 obligors, and underlying instruments. So that is
9 quite broader in the public markets than today's
10 specific discussion, but nonetheless, it seems to
11 us that there are existing frameworks, including
12 the international standards bodies as well as
13 industry subject matter experts, including
14 information providers, that have already existing
15 structures, know how to perform the duties and
16 obligations of a registration authority, and have
17 existing infrastructure and expertise.

18 So we very much see this progression as
19 a collaborative model and really one of the key
20 challenges, of course, is putting one's arms
21 around who the key stakeholders are, who the
22 subject matter experts are, and in the end only

1 execution and sustained investment and commitment
2 over a long period of time will meet the industry
3 requirements.

4 MR. JORDAN: Hi. I'm Ron Jordan. I'm
5 wearing two hats here today, Avox and DTCC.

6 Briefly, DTCC is a participant on ad cost utility
7 that is based in New York but is certainly global
8 in reach. And Avox, which is a wholly owned
9 subsidiary of DTCC, is one of the world's leaders
10 in the maintenance and validation of legal entity
11 identification. It has been around for about 10
12 years. It is UK-based and was purchased by DTCC
13 back in July.

14 We believe that, obviously, this is not
15 just a CFTC issue. Whatever happens here, the SCC
16 is watching and in particular the OFR, and
17 whatever solution comes out of here needs to be a
18 single solution that can apply to all plus
19 eventually European regulators.

20 We believe there are two functions here,
21 and I think Peter touched upon this briefly.

22 There is the assignment of the number or the

1 registration authority, but then there is the
2 activity to validate and maintain the database,
3 the attributes of the database, and make that
4 available to the public or to whomever else, which
5 is, we think, a lot more challenging than simply
6 the number assignment.

7 And then finally, we believe that the
8 characteristics that a utility or registration
9 authority need to have is several, really three.
10 Number one, there needs to be proven capabilities,
11 we think, to get to market quickly. Second, we
12 believe that this needs to be a global solution,
13 and there needs to be global acceptance to
14 whatever solution is undertaken. Third, there
15 does need to be proper governance because the
16 facility will change over time, and those who are
17 most affected by it, those who are paying the
18 cost, need to have a place at the table in
19 governing the utility on an ongoing basis.

20 MR. JANSSENS: Complementing on that is
21 that you asked which utility. So first, what is a
22 utility? I mean, we are serving the financial

1 industry, governed by the financial industry now
2 for more than 30 years and considered as a utility
3 by the largest firms.

4 I think to come to a solution for legal entity
5 identification, it must work through collaborative
6 models because it is too important for the industry at
7 large to look only at it from a unique perspective.
8 It has to be between partners this can work, and I
9 think that's how it will be utility; and the
10 governance beyond these utilities is important as
11 well.

12 MR. TAYLOR: Let me ask you all a
13 followup question. I think I heard, but tell me
14 if I'm right, a general view here that you all
15 believe there ought to be a single
16 utility/registration authority for the issuance
17 rather than multiples; is that correct?

18 MR. JANSSENS: I would say what's
19 important is the responsibility. It can be
20 distributed, but somebody must have the
21 responsibility to make sure that the criteria that
22 must be defined about quality and adoption and

1 distribution of the data are met; and that is one
2 responsibility. All that is distributed is the
3 responsibility of that registration authority or
4 the partners in this picture.

5 MR. GROSS: Francis Gross. Perhaps we
6 could differentiate the debates by considering
7 that the process will have several stages, and
8 that each stage could be subject to different
9 organizational settings. Some stages data
10 production, for instance, might be decentralized,
11 but this obliquity point of passage could be
12 central.

13 MR. CHIDSEY: I would argue that what's
14 most critical is a global standard and global
15 agreement on how the utility or utilities or firms
16 that are running this would operate.
17 Theoretically, you could divide responsibility
18 amongst jurisdictions, but the most important
19 thing is to ensure that there is a global set of
20 standards and guidelines.

21 MR. JORDAN: I would second that, but I
22 would also say we do believe there is a

1 distinction again between the registration
2 authority and the utility which is managing this.
3 So while you don't need the same entity to perform
4 both functions, we do believe it's probably most
5 effective if you have a single organization
6 responsible for each.

7 MS. LEONOVA: Again, let us catch up our
8 new participant, Ola Persson from FINRA. We
9 already started 15 minutes, so if you want to make
10 a quick introduction.

11 MR. PERSSON: Sorry. Yes. I'm Ola
12 Persson from FINRA. I'm the director of trace and
13 fixed income strategy within transparency
14 services. So to the extent I can help by shedding
15 light on transparency services.

16 MR. TAYLOR: We started a bit early, but
17 we've begun just with the first question about
18 what utility or registration authority can assign
19 and maintain a unique counterparty identifier. Do
20 you want to jump into that discussion?

21 MR. PERSSON: No. If you don't mind,
22 I'll listen for a little bit since I just walked

1 in.

2 MR. TAYLOR: Sure. That's all right.
3 Thank you. Another followup question. Our first
4 panel, if I understood properly, was saying they
5 thought the time to implementation for a unique
6 counterparty identifier would be quicker if we can
7 find a way to use an existing identifier and
8 elevate and adapt it as needed but not to go down
9 the road of creating something new from scratch.
10 I think I hear you all saying something similar
11 here that we might move more quickly to
12 implementation if the utility registration
13 authority is an existing organization adapted for
14 the purposes. Am I hearing that right?

15 MR. PREISS: I would like to react to
16 that. To the extent that any collaborative model
17 already exists in the industry and is at least
18 satisfying some of the requirements that have been
19 set forth, I wholeheartedly agree that existing
20 infrastructure and subject matter expertise should
21 be used.

22 And if I can just add on a comment to

1 your prior question in terms of is a single
2 utility the best model. Now I agree with several
3 of my colleagues around the table that there seems
4 to be a difference between a registration
5 authority and the underlying utility function.
6 Ultimately, there needs to be a single accountable
7 source, and being in the unique ID business for as
8 long as CUIISP has, we know firsthand whenever that
9 cannot be tolerated is duplication. And so if we
10 have multiple parties generating multiple
11 identifiers simultaneously in any sort of shared
12 pool model, that sort of defeats the very purpose.
13 So there is room for collaboration, but in the end
14 there needs to be a single accountable party.

15 MR. JANSSENS: That confirms what we
16 said, and I don't think there is anything to add.

17 MR. MARNEY: So to the prior question,
18 we agree. I think it could be a hybrid solution,
19 and it could work very well.

20 To the current question on the table, I
21 think using the existing is a good bias for
22 entering into the decision or entering into the

1 analysis, but I don't think it necessarily is a
2 foregone conclusion. Again, to tell you for sure,
3 for us internally, we decided to go new rather
4 than adopt something that was existing. It made a
5 lot more sense for us. I think it just requires
6 thorough analysis.

7 MR. TAYLOR: Now when you say "going
8 new," you're talking in terms of a utility
9 registration authority?

10 MR. MARNEY: Right. Rather than
11 adopting an existing standards.

12 MR. TAYLOR: Right.

13 MR. MARNEY: But I think going in with
14 the bias at the outset to look to extend an
15 existing because there is infrastructure in place;
16 there is networks in place; there's processes, and
17 there's software that can be extended and so forth
18 is probably a good place to start but not
19 necessarily the obvious answer or the foregone
20 conclusion.

21 MR. HARRINGTON: I think from the
22 perspective of Bloomberg, our firm connects to

1 everyone around the table in one format or
2 another, and I think we're all experienced with
3 the matching tables that we have, which is our
4 identifier to another identifier to another
5 identifier. Therefore, the move to use some
6 existing infrastructure I think is definitely a
7 good idea, but it is the question of how do you
8 start that process because, you know, there are so
9 many standards that are out there right now. And
10 they're mainly disparate obviously. You know,
11 DTCC in this space has done a lot of excellent
12 work as far as at the legal counterparty
13 identifier level. So I think, you know, that's
14 someplace where you can certainly look to start,
15 but I think that because there are so many
16 standards out there that it's going to be
17 something that has to be evaluated carefully as
18 far as a system that everyone can use.

19 Then the next question, and I think
20 there will probably be a separate roundtable on
21 this, will be the interconnectivity standards as
22 far as how those are going to be communicated.

1 MR. MARNEY: One further thought too is
2 scale, right. Depending upon exactly what you're
3 trying to address, and some parts of the
4 documentation talks about extending this to all
5 financial instruments in all jurisdictions. And
6 then that just explodes it expedientially, and I
7 think that makes it a very, very different game
8 than if you're talking about a relatively finite
9 universe.

10 MR. JANSSENS: This ties back to what we
11 said in the first panel, is adoption by the
12 industry and the cross- referencing is a key
13 element because all the industry, as constructed
14 one way or another, it's internal system for
15 identification of entities. And this is bespoke.
16 This is legacy, but it is embedded in all the
17 systems in any large firm.

18 What is important if we want adoption
19 and global view so that what needs to be
20 consolidated can get consolidated based on one
21 foundation block, which is this unique legal
22 entity identification, in order to make that

1 adoption, it need to cross-reference to all the
2 existing codes which are out there, which each
3 firm has already cross- referenced to its internal
4 legacy system. And that is where this will gain
5 traction and adoption.

6 MR. CHIDSEY: I think the next panel
7 will clearly be interesting to get a perspective
8 on the implementation challenges and what we need
9 to consider because ultimately whoever the
10 authority is really needs to ensure that it's
11 something that is going to work and be easily
12 integrated, or as easily integrated as possible
13 into the various processes and systems.

14 But, again, you know, similar to some of
15 the earlier points, the relevant thing here is for
16 whatever authority and whatever firms are involved
17 in this should have experience, should have the
18 infrastructure in place.

19 I think the identifier itself is
20 something that, you know, collectively will come
21 to what that ultimately should look like, and
22 there's probably not a specific solution out there

1 today that's perfectly fit for purpose or will
2 adhere to those standards. So the identifier
3 itself will need to change, but ultimately having,
4 you know, the infrastructure, the capability, and
5 the knowhow within the organization in this space
6 is going to be critical to make it successful.

7 MR. TAYLOR: You actually started on the
8 very next question I was going to put to everyone.
9 Let's do that.

10 Can we sort of collectively list here
11 what you think the characteristics are that it's
12 essentially for the utility or registration
13 authority to have?

14 MR. JANSSENS: Let me start. I think
15 the first characteristic is experience and
16 infrastructure in place, and that is also adoption
17 already of the code by the financial industry is
18 also a key to start because that will help making
19 the whole thing glued together and going forward.

20 MR. PREISS: I can add to --

21 MR. GROSS: Such a utility should
22 certainly be nonprofit, be placed under

1 irreproachable internationally accepted governance
2 with technical competency, neutrality, and
3 permanence.

4 MR. TAYLOR: All right. Scott, I think
5 you were next.

6 MR. PREISS: Thank you. Getting back to
7 the characteristics of a UCI and ensuring that
8 there is uniqueness. You know, in addition to
9 Paul's comments, certainly there needs to be
10 assurance upfront that records of legal entitles
11 are vetted, both from a system perspective, and
12 although I know there are different viewpoints on
13 this, you know, probably in a manual or personal
14 fashion as well, the key attribute of any unique
15 identification system is exactly that. We need to
16 guarantee uniqueness, and so whatever utility is
17 ultimately arrived at needs to be confronted day
18 in and day out with simple examples, ABC,
19 Incorporated, ABC Limited, ABC LLC, and that
20 decision needs to be made in real time to the
21 earlier point about time to market and
22 effectiveness.

1 So one of the key characteristics
2 perhaps should be guaranteeing that there is
3 primary source documentation to back that up. An
4 analogy in the public markets would be having a
5 draft perspicuous in the pre-trade space to ensure
6 unique identification of an issuer, an underlying
7 instrument, perhaps an obligor. The same sort of
8 construct, we think, would be essential to a
9 characteristic of a system here.

10 MR. JORDAN: Yeah. I think we agree
11 that the characteristics outlined in the release
12 are all valid, and many of those have been
13 discussed here, proven capabilities, global
14 acceptance, governance, et cetera.

15 I would say though that if you look at
16 -- you know, Scott just mentioned some of the
17 registration components. If you look at the
18 utility components, I do think the expertise piece
19 in maintaining and validating legal entities is
20 very important. That really does mean how is the
21 database populated? How do you go from 0 to
22 40,000 or 0 to 2,500,000 if you go to the full

1 extent of OFR? How do you do that, and how do you
2 do that quickly and accurately?

3 I also think the maintenance component
4 about how do you continually validate things that
5 change and how do you have a process to do that is
6 a key characteristic of what needs to happen as we
7 move forward.

8 MR. MARNEY: So I completely agree with
9 Ron's comments. I think there are challenges with
10 the uniqueness and the assignment of the codes,
11 but I really think the real challenge here is in
12 the management of the data in the background.

13 And going back to the previous panel, I
14 think it was Mark's comment about Master Data
15 Management, and you need some real proven
16 capability there. Absent that, you know, right
17 now you have very little transparency and insight
18 because there isn't the standard. If you create a
19 standard for the unique identifier but not what
20 flows below it, all you've done is push the
21 problem one step downstream and you're back in the
22 same place.

1 MS. LEONOVA: May I ask a followup
2 question. Sorry to interrupt you. It looks like
3 we're talking about assignment of ideas by
4 centralized (inaudible) and self- certification of
5 an ID of guidance number. Do I understand you
6 correctly?

7 MR. MARNEY: I think for me, my view
8 would be that the assignment of the number can be
9 very distributed or federated. I don't think
10 that's really where the challenge is. There are
11 plenty of examples of telephone numbers, IP
12 addresses, and so forth, Facebook -- not Facebook.
13 I'm sorry. It's not a good one, but IP addresses
14 or phone numbers that work very well. I think
15 it's what follows on from the data that supports
16 those IDs is where the challenge is.

17 MS. LEONOVA: Yeah. But that's what I'm
18 trying to get. So if you go with an assignment
19 process, it's going to be centralized by the
20 function to validate the accuracy of this data.
21 If it is self-certification, we would assume that
22 the party who self-certifies provides us data, and

1 somebody has to scrub it for accuracy.

2 What is the benefit and drawback for
3 each model, or do you have references?

4 MR. CHIDSEY: So I think both models
5 probably need to be explored. Self-registration
6 is something that certainly could add a lot of
7 benefit and efficiency to the process in terms of
8 legal entities coming forward, registering
9 themselves, potentially providing documentation.
10 That documentation would ultimately need to be
11 validated, but that could go a long way in terms
12 of improving the efficiency and timeliness of
13 these entities that need to be created and
14 maintained.

15 And just one brief point to the prior
16 question. One thing that shouldn't be
17 underestimated is the amount of effort required
18 to, you know, not only maintain but distribute and
19 support the information that is going to be put
20 into the marketplace, support the clients, the
21 consumers of this information.

22 Whoever the authority is will be a core

1 part of the market infrastructure and really needs
2 to have experience in those sort of support
3 processes and addressing issues and concerns, and
4 many of us around the table do, but it's just
5 something that should not be, you know, looked
6 over because it will be a very important part of
7 the overall process.

8 MS. LEONOVA: I'm sorry to be one-trick
9 pony, but what is the most efficient, both from
10 technological standpoint and from cost standpoint,
11 the way it validates the data? Is the reference
12 data for (inaudible) you're talking about?

13 MR. JORDAN: So I think there's two
14 primary methods that keeps getting bunted around.
15 One is a self-registration model, and one is a
16 contributing model. Our opinion is that you need
17 both, that one is not sufficient. A self-
18 certification model or having the entity register
19 themselves, the information would still need to be
20 validated. You need to validate, did the person
21 who is submitting it have authority to do that?
22 Was the information accurate, et cetera? And then

1 there needs to be some type of change management
2 process, even with self-validation. If something
3 changes is that entity now required to submit
4 that? We believe that some of that, if not all of
5 that, may require some rulemaking to enable people
6 to do that.

7 If you look at the other model, which is
8 contribution, this is really the model that the
9 Avox is based upon today, although the Avox does
10 incorporate self- registration as well. But
11 that's where a systemically important firm or any
12 entity submits their information on their
13 counterparties, and that could be 10s or 100s of
14 thousands of them to a database. And that gets
15 scrubbed by a group of analysts, including being
16 able to be self-certified. It goes to public
17 reference sources, registration authorities in the
18 jurisdictions as well as other sources.

19 This is a very important component as
20 well because what happens is, as we know, if you
21 look at the top dozen broker dealers or banks in
22 the world, they have a large overlap of clients

1 that they deal with, counterparties. So what
2 happens is you start to develop a network science.

3 Now I know Wiki is a bad word, but if
4 you look at it in the best sense where you get a
5 network contribution where seven firms or eight
6 firms are dealing with the same entity, and
7 they're all submitting information. They help
8 cleanse that information themselves, so you do get
9 a network effect. And what we have found in
10 experience is if you have seven firms saying that
11 an entity is defined with certain characteristics
12 and then you have an eight firm who says it is
13 different, it is usually the eighth firm who is
14 right because they have some new information.
15 They've been doing business with the client, and
16 there are some updates. So those events will
17 trigger scrubbing, additional scrubbing.

18 So there is a place for
19 self-registration or self-validation, and there
20 is a place for the contribution model. And we
21 believe that the right solution should combine
22 both, and, again, that's what Avox is based upon

1 today.

2 MR. JANSSENS: Yeah. Confirming that we
3 should not make a selection between one or the
4 other. The two are important, and the two will
5 build upon each other. Also you had a question
6 before about timing. If you look at self-
7 registration only, your time lap will be much
8 longer before everybody comes voluntarily to
9 register itself. Whereas if you work by
10 combination of both, the contribution model will
11 help you gain the first layer of the data faster.

12 MR. MARNEY: So I understand the
13 distinction in the question you're trying to ask.
14 I guess in practical application of that I
15 struggle to see where it's very different, but,
16 again, I come from the bias of a vendor I suppose
17 and the certain ways that we operate. One quick
18 example would be corporate actions. So if you're
19 going to allow the self-registration and the self
20 update of that data and you're going to scrub it
21 centrally, the person that's central still has to
22 go collect corporate actions to be able to

1 validate. There is no source to go get it.

2 Corporate actions is one of the biggest
3 things that plagues the finance industry in
4 keeping that accurate and keeping that up to date.
5 It is still very, very difficult today even with
6 standards out there that are really growing and
7 getting adoption. So I think it helps it and
8 having the combination is good, but you certainly
9 can't have the self- scrubbing and not the
10 self-registration. You're still going to end up
11 having just as large an effort in the central to
12 make sure that you got it right.

13 MR. PREISS: I'd like to build upon some
14 of the issues that Peter just raised. We're very
15 intrigued by the notion of self-registration since
16 we have so much experience in the contributed
17 model. It seems to us that there's a bit of
18 moving the burden of applying in a standardized
19 fashion from a central utility to the entities
20 themselves, and we wonder out loud what the
21 motivation would be for entities to not only
22 self-register but, to Peter's point, track the

1 life of that entity over time and contribute
2 corporate action information, which is critical to
3 efficient financial markets.

4 So your original question was about
5 benefits and drawbacks. I wouldn't call that a
6 drawback but really an open question. How does
7 that model work in practice?

8 And so that leads directly to the second
9 part of your question related to cost. In the
10 end, if we don't end up with a single unique
11 identifier, then what seems to be very cost
12 efficient upfront in the end is not. So we wonder
13 out loud as well.

14 MR. CHIDSEY: And just one final
15 comment. I think we're probably all in agreement
16 in general, but, you know, it is a combination
17 because ultimately if I look at personally what we
18 have today in market red, which is reference
19 entity information for the CES market or a market
20 entity identifiers, which are used to identify
21 counterparties transacting in the loan market, it
22 has to rely on a combination of a contributed

1 model, a self-registration model, and a proactive
2 model where we're actively going out and looking
3 for events or actions that have happened on those
4 entities.

5 So it's a combination of all those
6 things which will make a successful and robust set
7 of information that can be relied on within the
8 financial markets, but ultimately the validation
9 of that information, the confirmation of the legal
10 entity named the jurisdiction has to come from
11 source documents to what Scott was saying. And
12 the utility itself is going to have to be
13 responsible for that to ensure the integrity of
14 that data.

15 MR. TAYLOR: Before we move further down
16 the question list, there is a question on here
17 that I would sort of like to get an answer to. I
18 was thinking how to put it. This used to come up
19 in school elections for student government, if you
20 remember. I should say, in terms of this
21 question, it is perfectly permissible to vote for
22 yourself, but the question is are there existing

1 candidates for this role and who are they? And I
2 guess I should flush that out a bit by saying, if
3 you look at the proposed role, it is assuming that
4 at least as a first step we want a UCI for swap
5 counterparties. That's in a sense a finite
6 universe. It's not yet the entire financial
7 sector. Although we want something that can
8 broaden out to the whole financial sector, the
9 immediate goal is an identifier for swap
10 counterparties, and the rule contemplates we would
11 like to have that in place by the time that swap
12 data reporting begins.

13 With that in mind, are there existing
14 candidates to play this utility registration
15 authority role and who are they?

16 MR. JANSSENS: Yes. We are a candidate.
17 So I vote for myself, but not on our own. I mean,
18 we can certainly be the registration authority
19 because we are playing that role already, but we
20 also want to work in collaboration. As Francis
21 said before, the characteristics that are out
22 there for the registration authority that are

1 neutral, that are governed by the industry, that
2 are not for profit, we fit those, and we have been
3 working with the DTCC, who also is utility to see
4 how we could incorporate and come to a common
5 solution. So, yes, the answer is --

6 MR. JORDAN: I will put on my DTCC hat
7 and vote for Avox so I don't have to vote for
8 myself.

9 No. We do think that Avox has some core
10 capabilities here. Avox today has about 800,000
11 legal entities in its database, which it has
12 scrubbed on behalf of its commercial clients, and
13 we believe that the swap data repository is about
14 a universe of about 40,000 legal entities. We
15 don't know the overlap of how many of the
16 counterparties or parties in those repositories
17 are part of the current database, but we would
18 imagine there's a large overlap so that we could
19 utilize what we already have to get this going
20 very quickly.

21 We also believe, when it goes back to
22 governance, that, again, the cost-based utility

1 governed by its participants who are largely the
2 financial firms that we're talking about as being
3 the SIFIs and the other participants to the
4 markets really fit well.

5 When it comes to a registration
6 authority, we have been talking with all of them
7 potentially, and we think there is pros and cons.
8 As Paul just mentioned, we've had some extended
9 conversations with SWIFT as well.

10 MR. PREISS: I'm very grateful to my two
11 colleagues to my left for jumping on this question
12 first and setting the tone. I'm not going to
13 specifically vote for myself or my institution,
14 but it has seemed to us, you know, similar to my
15 opening comments, about existing international
16 standard framework.

17 There is an organization, a Belgium
18 corporation, known as ANNA, the Association of
19 National Numbering Agencies. It was created in
20 1991 with 22 founding members but today represents
21 over 200 countries in terms of issuer and
22 instrument unique identification. The membership

1 is more than 100 countries but, more importantly,
2 those members are truly international in nature.
3 These are international exchanges, securities,
4 depositories, and some vendor participation as
5 well depending on the market. So this is truly a
6 global approach with an existing infrastructure
7 and a very, very large database of issuers and
8 guarantors already.

9 There has been talk in recent months
10 about expanding what is known as the IGI, the
11 issuer and guarantor identifier, which is a draft
12 ISO standard, to expand that to cover
13 counterparties, and a lot of the major market
14 participants within ANNA, you know, think that's a
15 very viable model. And CUISP is just one of those
16 100 plus members of ANNA, but we do think that's
17 one viable model that should be examined.

18 MR. MARNEY: As a not for profit
19 endeavor, I think I vote for my colleague from
20 Bloomberg. Now on a serious note -- but I do
21 really vote for George. Can we strike that from
22 the record?

1 MR. HARRINGTON: I think it's on.

2 MR. MARNEY: We do have something like
3 Thomson Reuters or any of the other vendors I
4 think have quite a lot of capability to bring to
5 bear for this, but clearly there would be
6 considerations for how and why and what and so
7 forth; but it's what we do.

8 MR. HARRINGTON: So I guess I need to
9 comment now. Obviously Bloomberg does play a role
10 in this space, and I think we've been very public
11 with our Beason Strategy as far as publically
12 disclosing, you know, our identifiers for use of
13 market participants.

14 At the end of the day, I know that the
15 regulators try and avoid picking winners for
16 obvious reasons, but I do think that this is a
17 space where -- and I want to credit the CFTC for
18 taking this up, taking this particular issue up
19 because it's a bold move because it really is
20 going to be the first step in not just U.S.
21 regulatory policy but international regulatory
22 policy as far as, you know, the move towards a

1 centralized identifier, which will, you know,
2 really affect the entire global system.

3 And also I want to add one more point,
4 which is we need to make sure that we're also
5 thinking about not just identifiers from a legal
6 counterparty standpoint but also from a trade
7 counterparty standpoint because there are two
8 different components of that as far as the
9 counterparties who actually execute the trade and
10 the actual legal counterparts that underlie that
11 trade. Therefore, that needs to be brought in as
12 well.

13 You know, from an overall perspective, I
14 think there is certainly, you know, a space for,
15 you know, a provider, a not for profit provider to
16 put something into the market that all
17 counterparties can use. And we're all going to
18 have mapping tables at the end of the day that
19 will identify our own customer relationships, but
20 I really think it will increase the efficiency of
21 the market and, you know, lead to overall more
22 effectiveness of the proposed legislation.

1 MR. CHIDSEY: So just to throw our hat
2 in the ring and make sure people are aware, Markit
3 has implemented a somewhat similar system for the
4 loan market where we've rolled out market entity
5 identifiers as part of the automation efforts that
6 are happening today within the primary and
7 secondary loan market to automate the processing
8 or settlement processing of trades happening in
9 that market. And we've identified over the past
10 18 months 30,000 entities ranging from borrowers,
11 administrative agents, fund managers to the fund
12 themselves. So that identifier, although it
13 doesn't meet the standard but the underlying
14 process in concept could certainly be applied more
15 broadly to the swap counterparties and the model
16 that we've rolled out is really an open access
17 model where those identifiers can be used broadly
18 by market participants for the purpose of
19 facilitating automation of the settlement
20 processing in that market.

21 MS. LEONOVA: Can I go back to George's
22 comment? Let's define terms. So I assume we are

1 talking about LEI as a legal entity that is
2 incorporated and registered as part of a corporate
3 structure. That's where we are right now. If we
4 are going to execution trade branch, whatever
5 level, it doesn't mean it has to have been
6 incorporated in the system from the beginning or
7 it is one of the expendable functions of LEI can
8 be taken care of later?

9 MR. HARRINGTON: That's a great
10 question. It almost opens up a broader question
11 in this new, you know, swap world that we're
12 moving towards. You know, there are a number of
13 identifiers where you're going to want to have
14 some sort of identification.

15 For example, for our swap execution
16 facility that we're building and listening to the
17 regulators, there is relationships that we need to
18 understand with the central counterparties. So
19 that's sort of like the first step as far as, you
20 know, where is this trade going to clear.
21 Therefore, that's a level of identification as far
22 as who is using the system from an acuity taker

1 standpoint. Who is their DCM, how their
2 accessing, and then obviously what is the actual
3 CCP? So there is a string of identification
4 there. There is a string of identification as far
5 as the actual executor as far as who is actually
6 seeking liquidity, which is often times an
7 entirely different level where an advisor is
8 executing on a group of legal counterparties.

9 So I think that there are levels of
10 identification. I don't think we can finish this
11 job and say, okay, you know, one, two, three, four
12 is this firm, and, therefore, we're done. There
13 really is a string of identification that needs to
14 be done.

15 So the complexity of this effort is very
16 high, you know, and I think that around the table
17 we all have experience, you know, in providing
18 levels of that. I think to push this off on a
19 regulator and say, you know, come back to us and
20 give us an answer is not fair. I do think that
21 this kind of collaboration around the table is the
22 only way that we're going to come up with a

1 successful strategy.

2 MR. MARNEY: So I don't think you can
3 stop at just a legal entity identifier or just
4 legal entities. In managing a counterparty
5 database you need to get down to subsidiaries,
6 branches, divisions, affiliates, all that stuff,
7 and that gets -- you know, I'm getting some nods
8 around the table -- that gets very, very messy and
9 complicated; but it's essential if it's going to
10 work.

11 MR. GROSS: Francis Gross, just short
12 remark. I think that we are trying to tackle a
13 problem that we have patiently been building over
14 the last 30, 40 years of globalization and IT
15 intensification. So we might as well sort it in
16 stages over the next few years, learning along the
17 way. Let's be patient but start with things we
18 can do now.

19 MR. JORDAN: I think there's a phase
20 implementation that we have to look at here, and I
21 agree with Francis. And I think there's really
22 two distinct conversations that I see here and the

1 first panel started to get in. What is the core
2 information that is required to identify a legal
3 entity? And I would even add to that, that would
4 be publically available or could be validated from
5 publically available sources. And the core of the
6 utility that we're talking about to me is
7 narrowing defined that way, at least for the first
8 phase, but there's a whole series of information
9 after that, some of which was just discussed. We
10 also have to talk about hierarchies of information
11 and how you create hierarchies, et cetera.

12 Once you open it up, the complexity
13 becomes much more difficult, number one. The
14 costs go up. Because a lot of this information is
15 not based upon publically available sources, the
16 ability to validate this becomes not only more
17 difficult, but the reliability may go down as to
18 accuracy.

19 And I think while all of these
20 components are over time important, I think this
21 is a question about if we can establish a core set
22 of publically available information on which all

1 vendors, users, et cetera can build on and start
2 building these other types of functions, that's
3 the right way to start.

4 A facility could certainly collection
5 information and make it available, and whether
6 that's available publically or not publically is
7 going to be determined by regulators and by the
8 industry themselves. But I do think this is case
9 where if we can walk before we run and get a core
10 set of information that the whole industry can use
11 in the appropriate ways, that is the right way to
12 approach this.

13 MS. LEONOVA: Just to make sure I
14 understand to you correctly, so you are saying
15 that (inaudible) or starting from LEI and going
16 down is technological feasible way to do it?

17 MR. MARNEY: Absolutely. Definitely
18 feasible, but it's a matter of having the
19 extensibility within the system, the ability to
20 handle it and adapt to it and take it on. But
21 it's true for any database that you're building,
22 certainly for a counterparty database. No one has

1 got one that's absolutely completely. They're
2 always constantly building.

3 MR. JANSSENS: Maybe one comment, I
4 would say it's bottom up because let's first have
5 the first building block stable, and there we can
6 build upon. And the base has to be solid, and
7 then we can start to add to it and build stages
8 upon it in phases with all the expertise, which is
9 in the market, which is around the table today.
10 We can work and come up to solutions easily, but
11 the first element has to be clear from the start.

12 MR. HARRINGTON: I agree with you, Paul.
13 I think that if you look at where the market is
14 today, it is absolutely bottom up. So obviously,
15 Ronald with DTCC, you know, that is the bottom,
16 right. So in other words, that is just the pure
17 counterparties who face one another. They are
18 identified against one another.

19 It works, obviously, very well globally,
20 but now we really need to start from that building
21 block and start moving up the chain. You know,
22 obviously, if you look at the goal of a swap data

1 repository where you have reporting and all those
2 things around that, we're very much at the bottom,
3 and there's, you know, a succession that needs to
4 be built up from there.

5 MR. JORDAN: So I just want to chime in
6 and agree that the LEI is a logical starting
7 place, but now I'm confused whether that's top
8 down or bottom up. I'll call that sideways.

9 But I do want to agree with some earlier
10 comments made by Ed. I think there's a tendency
11 in the industry to underestimate the amount of not
12 only sustained investment but heavy lifting that
13 goes into maintaining that database overtime, and
14 that should be repeated at every possible moment.

15 I would also say there are some
16 conflicts in the various proposals out there
17 speaking about legal entity identifiers, and so
18 simultaneously I hear phrases thrown around like
19 utility, and cost recovery, and entirely free, and
20 then just now I heard about hierarchies. And
21 anyone that's been engaged in the business of
22 building hierarchies and who owns whom and to what

1 percentage, and I'm sure most of my colleagues
2 have been in that business and still are, that's
3 not something that's done cheaply, especially if
4 you need something that's done particularly well.

5 MR. TAYLOR: We've done these questions
6 a bit out of order but that always happens, and
7 it's perfectly all right.

8 You all have emphasized that quality
9 assurance is a key to making this work. Let's
10 talk a bit in detail, if we can, about what
11 quality assurance purposes are going to be needed
12 to be used by the utility registration authority,
13 whoever it is, and what data is going to be needed
14 to ensure that we have a trusted auditable method
15 of verifying identities.

16 MR. CHIDSEY: And we've touched on some
17 of this but, again, it comes back to robust
18 operational process. You know, as new requests
19 come in, however, they come in, the initial step
20 is to make sure that the entity doesn't exist and
21 that you're not creating any duplication in the
22 system.

1 And then importantly is ensuring that
2 the scrubbing that takes place and access to the
3 source documentation, review of the source
4 documentation has to be from whatever the accepted
5 sources are in a particular jurisdiction or, you
6 know, what is agreed ultimately by some sort of a
7 governance committee. But it really comes back
8 to, you know, the source documentation and
9 ensuring that a consistent process is followed
10 before the entity is ultimately committed to the
11 database or at least flagged in some way as
12 validated.

13 And that speaks to a timeliness element,
14 which we haven't addressed, but around the service
15 levels that will need to be agreed. And a request
16 comes in; there's an amount of verification that
17 needs to happen before you would consider it
18 validated and really want to use it in earnest
19 throughout the financial system. So that's
20 something we'll need to consider is, you know,
21 what is that stage process for an entity to go
22 through so that it gets into the system and people

1 can begin using it; but at some point it becomes
2 validated based on source documentation that's
3 been reviewed.

4 MR. MARNEY: So I would entirely agree
5 with that. I think the entire process from end to
6 end, all from the initial business analysis, and
7 the rules, and what's acceptable sources that can
8 be used, how it gets populated, how you make
9 editorial decisions around that, through to inline
10 quality control, quality assurance at the end,
11 independent auditing, secondary sources to look
12 at, multi-sourcing content, especially something
13 like corporate actions that go back to something
14 we referenced before. Everybody has to have
15 multiple sources for corporate actions. No one
16 has got it complete.

17 And then as Ed just mentioned, having
18 the transparency to be able to go back to source
19 document and have that available to end users so
20 that they can validate themselves I think is very
21 important. Everybody likes to be able to get back
22 to the registration documents or whatever it might

1 be that was determined, and having that available
2 in the system I think is very key.

3 MS. LEONOVA: Since you mentioned
4 primary source documents and registration
5 documents, what is currently being used to verify
6 the entity or organization you're interested in,
7 in the organizations right now?

8 MR. PREISS: It sort of dovetails with
9 my comments. Beyond my colleagues' initial
10 comments, there's a multitude of official legal
11 documents that are used broadly today, tax
12 filings, financial statements, clearly in the
13 public markets, prospectuses, but there's also an
14 element of timing. When is that information
15 available and to whom? What's the earliest
16 possible view of the truth that we can, as an
17 industry, coalesce around.

18 And I would add that there needs to be a
19 greater understanding of the global rule set. So
20 in certain jurisdictions perhaps tax documents are
21 not readily available on public and/or private
22 institutions. The same holds true for

1 prospectuses, and so I agree with my colleague,
2 Peter, I believe made the statement earlier. It's
3 this type of forum, this collaborative spirit
4 that's really going to bring these issues to the
5 surface, and so I applaud CFTC for bringing us
6 together.

7 MR. JORDAN: In each jurisdiction there
8 are also some authorities, which in the United
9 States is usually the secretaries of each state,
10 where you're required to register. In the United
11 Kingdom it's something called the Company's House,
12 et cetera. But, you know, we caution there
13 because there are update requirements in each one
14 of those jurisdictions which may not meet the
15 requirements of a database. For instance,
16 Company's House I think you have to publish once
17 every six months, so information can be outdated
18 by six months.

19 So I do think, you know, beside the
20 challenge capability that we talked about, and the
21 self-validation, and the corporate action feed
22 reading, and even periodic scrubbing of

1 information against these sources, I think there's
2 a few other things. Each jurisdiction there is,
3 we'll call it the meta-data layer here, where
4 there is a series of documents and a way in each
5 jurisdiction that you can go and validate those.
6 We have developed, over the period of the last 10
7 years, a very elaborate meta-data layer on a
8 country by country basis.

9 It's also against publically available
10 sources, and that needs to be transparent. That's
11 the other thing. The database needs to articulate
12 where the information is coming from and how it
13 was derived so that any user of the database can
14 see the sources, and we think those are some of
15 the ways that you ensure the quality.

16 MR. HARRINGTON: I would sort of credit
17 some of the work that Ed's firm Markit has done in
18 the space as far as looking at the credit default
19 market where you have obviously defaulting events.
20 You have a process of sort of a lead up to the
21 actual auction. Then you actually have the
22 auction settlement. I think that, that type of

1 format of disclosure is something that can be
2 looked at as a potential model.

3 Now obviously we're talking about, you
4 know, the actual. That's sort of a small window
5 into a much larger world when you're talking about
6 the legal entities. So obviously there's a lot
7 more information that would go through there, but,
8 you know, if we could move that type of a model,
9 you know, into the public forum with some sort of
10 regulatory oversight, I think that would benefit
11 all market participants.

12 MS. LEONOVA: Ola, I feel like you're
13 left out. Do you want to say something?

14 MR. PERSSON: No. I mean, certainly the
15 problems we face just maintaining our very limited
16 universe is echoed, and this is going to be
17 plentiful. I mean, one thing that comes to data
18 maintenance that I think is regulated we want to
19 consider is how do you ensure a proper audit trail
20 so you for regulatory purposes can go back on an
21 audit trail.

22 We know this universe moves very quickly

1 over time. For us, it is obviously a key
2 component. How do you ensure that you can go back
3 and look at events that have taken place over time
4 and then link them together? That is a key
5 component of a regulator.

6 MR. TAYLOR: A couple of you touched on
7 a question we were going to do a little later, but
8 let me ask it now. What turnaround time frame is
9 needed for assignment of a UCI to an entity that
10 seems one?

11 MR. JANSSENS: Well, in the turnaround
12 time there is -- first of all, we need to make
13 sure that the data has been vetted and is of
14 quality. So I, again, think that's more important
15 than the time. But then the processes that need
16 to be in place can probably be in phases as well,
17 that the data is made available in less than 24
18 hours but validated in maybe 24 hours as well,
19 depending on the jurisdiction, if the public
20 sources are available. It can be done in 24
21 hours. If not, they should be marked as not
22 validated yet and distributed because if an entity

1 needs a code in order to trade or to enter into a
2 transaction with a party, you cannot hold it from
3 doing a transaction because a code has not yet
4 been identified.

5 MR. CHIDSEY: The only comment I guess
6 to add to that would be that, you know, we're
7 talking about identifying parties to financial
8 transactions. So in order for that financial
9 transaction to happen between two institutions,
10 there normally is, you know, some sort know your
11 client and upfront due diligence that happens
12 between those two counterparties.

13 So it speaks to at what point do you
14 insert the creation of the legal entity into the
15 overall financial process. And, you know, the
16 further upstream that you go in interacting with
17 market participants and, again, coming back to
18 some sort of self-registration to alert the
19 authority that a new entity needs to be created
20 will be critical because, you know, I think the
21 timeliness, once the request hits, you know,
22 ideally it would have to be created in the same

1 day.

2 MR. MARNEY: So I think -- I'm sorry,
3 George.

4 MR. HARRINGTON: Go ahead.

5 MR. MARNEY: I think it depends on the
6 use case and what you're trying to solve for. So
7 on the creation, is it to enable workflow, or is
8 it for reporting purposes? I think that gives you
9 very different answers. And then for the utility
10 or the reference data that we're talking about, I
11 think that's also a very different thing where
12 there could be timeliness requirements for keeping
13 it up to date maybe different than timeliness
14 requirements for the availability of the service.
15 Because if you want to look to see if an entity
16 already exists, you have to have a live credible
17 service that's available all the time. If a new
18 entity is going to be created and it's for
19 reporting purposes, then maybe the timeliness
20 requirement is a lot different. So I think it
21 really depends upon the use case that you're
22 looking at.

1 MR. TAYLOR: We are -- go ahead.

2 MR. GROSS: A very brief one on the use
3 cases. I think that if we want to have an
4 identifier that's accepted everywhere, we should
5 create an identifier that's really useful for
6 everyone and that ultimately perhaps after a
7 longer phase will be used also for all business
8 processes, therefore, the registration and the
9 utility too. It should serve the fastest needs of
10 all the using business processes.

11 MR. TAYLOR: We are actually out of
12 time, even though we had 15 extra minutes. I'm
13 pleased that this topic was so interesting. There
14 are a couple questions I hoped to get to that we
15 just didn't, which were to talk in more detail
16 about how and by whom the system should be
17 governed and what level of fees are sufficient to
18 make it work. If any of you have thoughts about
19 that and would like to send us them in writing,
20 we'd be happy to put them in the comment file as
21 well, but I don't --

22

1 MR. TAYLOR: So, if people on Panel 3
2 could come up to the table. Bring your name tent.
3 Start filling from down by us if you will, but
4 you're going to need all of both sides, I think,
5 because this is a large panel.

6 (Pause)

7 MR. TAYLOR: All right, we are back.
8 This is Panel 3 of the roundtable, Implementation
9 Considerations Concerning Unique Counterparty
10 Identifiers.

11 I think the first two panels thought
12 this panel was the one that was really on the hot
13 seat. We will see. And I think maybe the
14 participants did, too, because we had more
15 requests to be on this panel than maybe any of the
16 others.

17 So, let's start with the first question
18 we had posed, which is: What are the technical
19 challenges for timely implementation of a UCI?

20 Anybody want to go first?

21 MR. PUSKULDJIAN: I guess I'll start.
22 I'm Paul Puskuldjian from Citi. I've been

1 involved in infrastructure operations in the
2 financial services industry for over 20 years, so
3 I've seen many identifiers created whether it be
4 by an industry participant, a vendor, an industry
5 utility -- many different identifiers created. We
6 view this certainly as something that is very much
7 needed in the financial services industry and,
8 quite frankly, I think a really good idea.

9 It should be noted, though, when you
10 think about the technical considerations that most
11 of the financial services firms have a lot of
12 technology that has adopted to all of these other
13 identifiers in the past, and, you know, to bring
14 that all together and create some harmony across
15 all of those internal applications is going to be
16 a huge mapping task.

17 But that being said, I think it's
18 certainly a good idea. We certainly support the
19 fact that there be one identifier globally, if
20 possible, and that if that identifier could be
21 developed by an industry utility, that would make
22 much more sense than having it done by a vendor or

1 a for-profit institution.

2 MR. GRODY: Yes, my name is Allan Grody.
3 I'm President of Financial InterGroup Holdings.
4 We basically develop joint ventures in the
5 financial services industry. And my partner is,
6 in this joint venture, a GS1, who if you were here
7 in the earlier panel you heard -- Mr. Traub --
8 describe the GS1.

9 I'm here both in representing my company
10 and representing that joint venture. We call it
11 the Global Financial Services Data and Standards
12 Alliance. And in the last month we have opened up
13 what was private deliberations among 16 global
14 financial institutions and global standard setting
15 bodies and a few other interested parties to broad
16 discussion across the entire globe. We invited
17 500 people of which 100 were on the call, and then
18 we had another call in inviting that subsegment to
19 our discussions.

20 Basically I'm here to tell you that
21 there is a global numbering system that exists in
22 the world that is used by companies. It's called

1 the GS1 system of standards. It's basically
2 developed for the trade supply chain; and the
3 members of that organization, 1.5 million who are
4 basically collected around 108 registration
5 authorities, would like to take the same
6 methodology and offer it to the financial industry
7 in cooperation with the folks here today and the
8 people around our table so that we can begin to
9 quickly identify all the legal entities that they
10 have already identified and the others that need
11 to be identified.

12 The identification systems endured for
13 40 years. Its manifestation for most of you is in
14 the 40 million product codes that you see on
15 commercial products -- basically, the bar code.
16 In that bar code is unique, universal, and
17 unambiguous numbers. Those numbers represent the
18 companies, the locations, transportation
19 intermediaries, and, obviously, products.

20 We think the implementation could be
21 accelerated if we simply look at an existing
22 system that basically came about not because of

1 regulatory compulsion but because there was a
2 business need 40 years ago. The most interesting
3 thing about the solution is that none of the
4 commercial interests then nor now in the trade
5 supply chain were disenfranchised, and none of the
6 commercial interests and business users of the
7 existing systems would be disenfranchised. We're
8 basically presenting a global mapping system that
9 everyone can use and a universal numbering system.

10 Thank you.

11 MS. GOLDMAN: I'd like to introduce
12 myself, Melissa Goldman from Goldman Sachs, and
13 also I'd like to thank you for inviting us to
14 participate at the panel.

15 I'd also like to reiterate the point in
16 terms of being supportive of a single UCI and
17 encourage the implementation of that across the
18 markets, across the globe. We estimate that there
19 are approximately 40,000 entities participating in
20 the OTC markets and that the complexity around a
21 rollout of that would need strong support from the
22 regulators in a unified way. We believe that the

1 firms, including the broker-dealers, would need to
2 engage in what would be a complex mapping
3 exercise, as referenced earlier, and that the
4 challenges around being able to do that is very
5 much dependent on the complexity of the
6 implementation within the firms impacted.

7 And we also would just like to note that
8 we believe that the identification of a registrar
9 should involve an open call to the market where an
10 RFI can be put forth and an evaluation of the
11 response to that RFI should be evaluated by the
12 marketplace.

13 MR. MAGNUS: Hello. My name is Arthur
14 Magnus, and I'm with JPMorgan Chase, and I also
15 would like to thank you for the opportunity to
16 speak here today.

17 Like my colleagues, we strongly support
18 the creation of a legal entity identifier within
19 the financial services industry. One of the
20 things that I think we need to be very clear on,
21 though, is exactly what is the purpose -- and we
22 touched on it in the last panel slightly, but the

1 question is what are we trying to identify, and
2 what are the risks we're trying to manage?

3 If we're looking at the type of
4 reporting I understand if there's marketing
5 manipulation, which is one of the things this
6 Commission is supposed to be looking at, then you
7 need to understand who are the counterparties
8 executing the trade. If you're looking at credit
9 and understanding where there's concentration of
10 risk, you need to understand who the beneficial
11 owners are. The legal counterparty to a trade is
12 frequently a combination of the two of those. And
13 that is not a legal entity, by the way; some
14 people call them an account.

15 So, we need to understand what we are
16 identifying so we can understand the universe of
17 what we are trying to do. I do believe that the
18 technical challenges are we're going to have to
19 get in a room with the supervisors, the
20 regulators, the financial industry, and the
21 vendors; understand what we are trying to
22 identify; and then we can come up together with a

1 way of solving this problem. This problem is one
2 that we've been talking about in the industry for
3 a while. We have multiple solutions out there.
4 And it's not something that's going to be easily
5 solved through regulation but through working
6 together and understanding how corporate actions
7 and other things will affect those identifiers
8 over the life of transactions that are going to be
9 in the data repositories.

10 MR. SULLIVAN: This is Todd Sullivan
11 from Morgan Stanley. I also thank you --

12 MR. TAYLOR: Excuse me one second.
13 It'll help if people push again to turn their mike
14 off when they're done. I'll try to do it, too.

15 MR. SULLIVAN: Thank you for the
16 opportunity to speak today. Like, all of my
17 colleagues here, we strongly support the use of a
18 unique kind of party identifier. Specifically,
19 the technical challenges raised by this issue --
20 I'll make two comments. I'm sure there will be
21 additional that I'll no doubt agree with, but
22 first and foremost is a definition of what is a

1 legal entity, because I think there certainly is
2 an acute need under the proposed rules to talk
3 about counterparties to a swaps transaction.
4 However, without understanding or at least taking
5 into account other uses for LEI, whether it be
6 under OFR or other systemic risk supervision
7 analogies or, frankly, things outside of the OTC
8 derivatives market. So, certainly the requirement
9 to make filings as public corporations resides at
10 different levels within the corporate structure,
11 and those entities, when they make those filings,
12 are identified. To the extent we can anticipate
13 or at least plan for a contingency where there
14 might be unique levels of reporting requirements
15 or unique levels of relationship between those
16 entities, the more we think about that before we
17 implement a process, the easier it is to make that
18 extendable to cover those same requirements.

19 The second is, following on from the
20 previous panels that discussed the extension of
21 current existing platforms and potentially
22 extending the use of one of those current

1 identification systems to cover this requirement,
2 while the frameworks they've used certainly should
3 be considered as we build something, the challenge
4 for us as users -- and most of us sitting around
5 this table are the parties responsible for
6 reporting -- their numbering
7 systems/identification systems are fully embedded
8 in the hundreds or thousands of systems and
9 processes across the industry already.

10 You know, simply examples of a couple
11 things that have come up: DTCC participant IDs in
12 the OTC derivatives market-read identification
13 numbers under the market service are so fully
14 embedded in other processes that to change the use
15 there to extend it to cover UCI runs the risk of
16 significantly affecting the use for other
17 purposes. So, I think we should certainly look at
18 the frameworks they've used to build the systems
19 as certainly a starting point, but simply taking
20 one of those and extending it and saying it now
21 qualifies as a UCI runs a significant knock-on
22 effect risk to the other uses of those numbers.

1 MR. TUBRIDY: Hi. My name is Ray
2 Tubridy. I'm with State Street, but today I'm
3 here representing the FIA. We kind of came into
4 this discussion a little bit late, so I apologize
5 if I misstate or mischaracterize anything.

6 I'm part of a subcommittee for the OCR
7 rules that were published by the CFTC, and we
8 spent some time looking at the requirements and
9 comparing them to the existing requirements that
10 exist in futures. And within the futures
11 industry, we do various levels of reporting, and
12 we use unique identifiers today, mainly three:
13 One, the executor ID, the one who places the order
14 to the market; the controller, the one who makes
15 the trading decisions; and the beneficial owner.

16 And so, you know, I echo Arthur and
17 Todd's comments about we really need to define
18 what this counterparty definition is, and the
19 recommendations coming out of the subcommittee are
20 that we try to leverage existing data where we
21 can, minimize the amount of development in systems
22 impacted, but, most importantly, be consistent

1 across the products.

2 And now with the swap market come in to
3 clearing, we have markets that are already
4 clearing and that are struggling with some of the
5 same requirements, and so we want to make sure
6 that we are looking across these products and
7 developing these new reporting requirements so
8 that they will be useful across products when that
9 time arises. So, consistency, keeping in mind
10 straight-through processing, leveraging systems
11 and technology where we can, and reasonable data
12 requirements.

13 And so, you know, we have a lot of work
14 to do between now and July, and we need to be
15 reasonable about what we're asking for and knowing
16 that maybe we can't get everything we want in by
17 July but having a plan for where we're going to
18 get that data.

19 MR. McClymont: Hi. I'm Stuart
20 McClymont with Deutsche Bank. Again, thank you
21 for also to participate in this roundtable.

22 I certainly think that we definitely

1 agree with the mutual standards. I think we need
2 to be careful, though, in terms of really
3 understanding the process, the functions within
4 the process, and making sure that we don't try and
5 retrofit existing solutions into that process. I
6 think we need a period of design amongst the
7 industry both in terms of vendor supplies, users
8 using our prior experiences getting industry
9 together to work hard. Whatever we need. What
10 should it look like? What are the current
11 incumbents, and how do they need to be modified,
12 and relegating that design, that understanding out
13 first to redraw through what are the requirements
14 of it. Let's get more clarity around why do we
15 need these standard identifiers, and what is the
16 report of (inaudible) to be able to support those
17 standard identifiers and as a group of
18 institutions, as users, as vendors agree that
19 design, that infrastructure.

20 I think what we've done in the past is
21 we kind of jumped into very specific areas like
22 resembled that registration authority or we jumped

1 into the distribution mechanism or we jumped into
2 the cleansing and process. I think we understand
3 the whole request for identifier, the generation,
4 the storage, the distribution, and the
5 consumption. Restart thinking about (inaudible) a
6 provider prospectus -- who's the provider of the
7 service and what is the service they're providing
8 and how do they fit within other providers of the
9 end-to-end service. And then ultimately what are
10 the consumers, what are they consuming, why are
11 they consuming, and what they need to then to
12 provide that downstream, and again consumers. I
13 think without that we will probably go down
14 certain routes, we will probably spend a little
15 money, and I think, given the time frames that
16 we've got to try and achieve some of this, we need
17 to get to the table very fast as a group to start
18 designing what the solution looks like and working
19 out where the deltas are today.

20 MR. TAYLOR: That's -- sorry.

21 MS. YEE: Hi. My name is Lindsay Yee.

22 I'm from the Bank of New York Mellon, and I

1 actually work on the Derivatives Trading Desk
2 itself where I manage the Trade Capture Support
3 Group, and I support the traders' products and
4 implementations.

5 I also agree that the unique
6 counterparty identifier should be agreed upon. We
7 need to figure out, first of all, what is the
8 universal standard, agree to it, and then publish
9 it.

10 Other things that we do need to also
11 think about are the operational deployment within
12 our existing systems, interface modification
13 between our company systems and anything that we
14 can leverage operationally within the
15 organization, what maintenance needs to be
16 maintained through the internal systems, and the
17 upkeep -- who's going to be responsible for that.
18 We're going to need extra funds for it and
19 resources with people as well.

20 MR. TAYLOR: Anyone else want to weight
21 in on technical challenges for implementing the
22 UCI? If not, we had a minute ago --

1 MR. SULLIVAN: One more comment.

2 MR. TAYLOR: Sure.

3 MR. SULLIVAN: It's just that there was
4 discussion before about the timeliness and how
5 fast we get this back. The technical limitation I
6 think should be looked at in two different ways.
7 One is ongoing once it's running -- what is the
8 service level agreement expected by the users of
9 the service? The other one is obviously the day
10 you turn this on, right? -- how fast do we expect
11 to get data back? -- because, I think, you know, a
12 lot of the debate about a contributed versus a
13 self-registration model raises issues. If it's
14 contributed and you have the top 20 banks
15 contributing all the data at once, you're likely
16 to have at least 15 repeats of everything, all the
17 major participants in these markets. So, you
18 know, thinking about how we go through that
19 process and how long it takes to get through that
20 initial scrub. And then there's an ongoing new
21 entrance and maintenance exercise, which I would
22 expect to be looked at in different timelines.

1 MR. MAGNUS: I would also suggest that
2 the creation of data might take -- you might have
3 more time to create something once it's up and
4 running because of the time it takes to do all the
5 KYC as was mentioned earlier versus some change to
6 the data, which might need to be made rather
7 quickly if we want to be able to use the data in
8 the repositories in a timely manner.

9 MR. TAYLOR: Anyone else on technical
10 issues? Well, let's move to -- it's a big
11 question: How can industry consensus on a UCI be
12 achieved? I mean we've heard from all three
13 panels, I think, this morning a general agreement
14 that we need a UCI. It's heartening to hear, you
15 know, volunteers, people voting for themselves as
16 being the utility or the registration authority.
17 Obviously, there's a question about how do we pick
18 a solution, and I think it's clear from what we
19 said in the proposed rule the Commission, at any
20 rate, prefers not to pick, that the industry would
21 come together. You all are the ones who are going
22 to pay for it. You all are the ones who are going

1 to use it. You are all the ones who have the
2 technical expertise in it. So, the question is
3 how can an industry consensus be achieved. And
4 maybe let's start with -- we have to break that
5 into its components -- what institutions need to
6 be involved in that process?

7 MR. GRODY: I'd like to discuss that.

8 MR. TAYLOR: Go ahead.

9 MR. GRODY: First of all, let me just --
10 besides announcing my affiliation and my company,
11 I would like to give you a little background,
12 because I've lived through six decades of the
13 financial services industry, and I've had 50 years
14 on Wall Street, and people say I can't be that old
15 but that was my first job out of school, working
16 in a luncheonette on Wall Street, so I like to
17 date my experience from that point. But I've had
18 45 years of business experience over six decades.

19 I was there when CUSIP was thought of,
20 and when DTCC was first invented I was there at a
21 bank when we installed SWIFT. And I've been
22 through a number of generations of this. In 1995,

1 I called the first cross-industry standards
2 conference where we had the world standards
3 organizations around our table to discuss the
4 problems. And the chairman of the standards, a
5 board that was called at that time, was the
6 chairman of the World Federation of Exchanges --
7 then it was called something else -- and he had
8 worked for three years to try and build consensus.
9 And he concluded that the standards organizations
10 were in competitive businesses and they couldn't
11 be brought together as a group.

12 What's different today is very simple.
13 Unlike all of these other attempts, we have
14 regulatory compulsion. And you are the most
15 important part of getting us around a table to
16 solve this problem. Every one has a vested
17 interest, and they should. They have done a
18 Herculean job in supporting the industry. What's
19 different today in our world, in our global
20 financial services data and standards alliances,
21 we brought the corporate issuers to the table and
22 their auditors, people who heretofore have never

1 been involved in the thought process of solving
2 this problem, people who we want to give numbers
3 to: General Motors, IBM, Kroger, Walmart, all
4 right? They have given themselves numbers in
5 their other business, producing their commercial
6 trade products. They are now at our table in the
7 form of GS1 saying we believe straightening out
8 the financial supply chain is important. They
9 never knew what happened after the board met and
10 approved a corporate event. They never understood
11 what the investment bankers, the accountants, the
12 lawyers were doing with those pieces of paper.

13 We have a role for XBRL in translating
14 the success of financial statements translated
15 into XBRL. We all understand how successful that
16 project is. We want to move that project forward
17 to get the data from the prospectuses, the
18 memorandum, the ISD master agreements. Even the
19 financial announcements, the corporate events,
20 from paper documents into XBRL templates so we
21 could provide the data for the extensions of these
22 uniform codes that we wish to provide to the

1 financial industry and to databases and do it in a
2 straight-through processing way that we've always
3 wanted and never included the people who were at
4 the top of the financial supply chain.

5 MR. SULLIVAN: I might suggest perhaps a
6 different way of saying it and probably a very
7 similar message, but we have very active industry
8 groups formed across the financial service
9 industry, a number of which you have already met
10 with numerous times representing both buy-side and
11 sell-side institutions. They have to be at the
12 table.

13 You, your colleagues at the SEC, your
14 colleagues at Treasury, your colleagues around the
15 world, the FSA, the European regulators en masse,
16 Asia-Pacific regulators need to be at the table,
17 and I think obviously the service providers who
18 are vying to play different roles within this
19 process need to be there. And those are the three
20 major constituents that need to be represented --
21 the participants in the market, the regulators
22 across that market, and the people providing the

1 services. The ideas are going to come
2 collectively probably from all three, but the
3 service providers are going to be there as a
4 sounding board for how to come up with a solution.

5 The participants in the market are going
6 to know how they're going to implement that, and
7 the regulators play the most key role in ensuring
8 that we have a single, global, consistent set of
9 rules that we're trying to comply with. Having
10 solutions that are different in North America from
11 what they are in Europe or what they are in Asia -
12 or that diverge over time will make this
13 unimplementable. But the three groups together
14 can come up with the mandate -- I think Stuart was
15 specifically addressing that -- defining what is
16 the problem set that we're trying to solve for.
17 And then we can derive consensus from that group.

18 And then, you know, I think Allan's
19 absolutely correct, the world is different than it
20 was 40 years ago. There is no passive sitting by
21 and just let things happen. Those options have
22 been taken off the table. So, I think that group

1 sounds daunting. It's huge. But, frankly, we've
2 proven over the last five years, certainly in
3 specific asset classes we've done this. You know,
4 that is the only model that's going to make an
5 effective answer.

6 MR. TAYLOR: Let me ask a quick
7 follow-up for that, because I thought I heard
8 this. From both of you are saying, you're talking
9 about getting those three classifications of
10 stakeholders, shall we call them, around the
11 table. Do you think there really needs to be a
12 table? Does someone need to convene a giant
13 meeting of all those folks? Or if it's not
14 literally around a table, how do you do it?

15 MR. GRODY: Well, there's a model in the
16 world today that did just that. That's the Basel
17 Committee under the G20. And they created a
18 capital standard for the world. It's modified.
19 It's Basel III now. But it's the best thing we
20 have, and they recognized of course that the
21 weakest link will bring down the whole system.
22 Systemic risk is what we're ultimately trying to

1 resolve. So, there is a table there, a bully
2 pulpit, all right? And we're suggesting that the
3 Financial Stability Board, while they have a
4 framework concept around systemic risk, also
5 create the framework concept around a global data
6 standard and then push it through to the
7 regulators across the world so that we can have a
8 table up there that will watch over this data
9 standard.

10 MR. PUSKULDJIAN: You know, just
11 listening to the few panels that have talked about
12 this, the fact that this hasn't been done before,
13 you know, doesn't mean that it's not a good idea.
14 Every single person that sat here said it's a good
15 idea. The problem that I think we've had is that
16 it there hasn't been some consensus -- global
17 consensus. So, I think working the regulators,
18 setting the framework, working with the industry
19 participants can help us set that framework, and
20 the industry participants working through what it
21 is that the regulators actually want to be able to
22 see I think will come up with a strong solution.

1 But I will say that it definitely has to be a
2 global solution that all the regulators are
3 supportive of and agreed to.

4 MR. McCLYMONT: Paul, I would just echo
5 that. I think we've been tremendously successful
6 in the last five years as an industry to deliver
7 solutions to improve our operation efficiency.
8 Our approaches to our control reduce the risk in
9 the market, and that's because we've had a group
10 -- the OTC Derivatives Regulators Forum -- where's
11 we've got a number of regulators around the world
12 coming together with the community (inaudible) buy
13 and sell sides to firstly set out what people's
14 requirements are, what their objectives are, and
15 there's some negotiation in that process but we
16 always end up every year -- and we have done
17 (inaudible) of the regulatory commitments letters
18 to agree what those commitments are going to be
19 both from a regulator perspective and also from a
20 delivery perspective and from buy side and sell
21 side. We then work with the vendors to identify
22 solutions to (inaudible) commitments. But

1 throughout we've been very clear what are those
2 commitments, what are the requirements? Do we
3 both agree, and are they going up against what we
4 both want? Yes. Okay. Now, what (inaudible)
5 providers actually deliver a solution within
6 appropriate time frames. So, I think it's that
7 collaboration between regulators globally, the
8 users globally, to identify the "what." Then we
9 work through with the vendors to identify the
10 "how." And then we work through again the time
11 frames built to deliver against it. But I think
12 we need to be very organized, very clear. And
13 again it goes back to my original point. I think
14 if we don't design the "what" as a community, we
15 will end up spinning our wheels and we will try
16 and retrofit infrastructure that exists and is
17 perfectly good, but I think we should learn the
18 lessons that we've experienced over the last five
19 years in terms of building out standards around
20 red IDs, around standard calculations, standard
21 documents, how we approached that in the past and
22 how successful we've been by that approach.

1 MR. MAGNUS: Yeah, I would like to
2 support what Stuart said, because that model has
3 worked incredibly well, and allowed us to bring
4 things to market very quickly. We've made
5 commitments on an annual basis and within a year
6 made significant progress against those.

7 You know, I was actually involved in the
8 Microform's Basel II program. That took probably
9 15 years before I even got involved, and it's now
10 many years later and it's still being implemented,
11 though it's not the time frame we're looking for
12 in this particular endeavor. (Laughter) So, you
13 know, I think if we can get around the table with
14 the right subset using one of the industry groups
15 -- and I would recommend to you SIFMA/ISDA to help
16 drive either one of those two forums -- to get
17 around the table and do what Stuart suggested,
18 which is to identify what the objectives are and
19 agree between the regulatory and supervisory
20 community and the players in the market what the
21 objectives are, we can then very quickly engage
22 the vendors and figure out what is the right

1 technical solution to that. And that would be
2 certainly my recommendation for a quick fix -- or,
3 not quick fix but a quick way to a solution.

4 MR. TAYLOR: You're talking about, you
5 know, once you've got the principles you can look
6 at the vendors and make a decision. One of the
7 questions here is who makes that decision and how
8 does it get made?

9 MR. MAGNUS: The industry through the
10 IIGC in the past has done this in several
11 different forums, and the process for creating the
12 credit repositories that exist -- the equity
13 repositories, the fixed income -- went through
14 similar processes where the industry picked the
15 vendors to meet the requirements at the cost that
16 they thought was competitive. It was an RFP
17 environment. In some cases they issued an RFI and
18 then an RFP. The community that was ultimately
19 going to pay for it decided which vendor they
20 going to go with, with the help of the supervisors
21 to make sure that all the participants that were
22 bidding on it were actually delivering on what

1 they were looking for.

2 So, I think you have roles to play for
3 different groups. The regulatory and supervisory
4 community can help make sure that the vendor that
5 is selected meets the requirements, and the people
6 who are going to pay for it, which are the market
7 participants, get to actually pick the vendor and
8 their governance structure's in place that can be
9 used to do that.

10 And we can also make as part of the
11 requirement that we need that international
12 threshold, because there are things that can be
13 divided up around the world. If you look again,
14 the internet model was a very good model. It
15 isn't consistent across the world. There is one
16 body that issues and maintains sort of consistency
17 but then each nationality in each country does
18 sort of their own thing. And so there are
19 definitely lots of models that can be leveraged,
20 but that would be the way I would recommend to
21 move forward quickly.

22 MR. GRODY: I would like to engage the

1 panel here in discussing what is in fact the
2 narrow focus that we are now discussing with
3 regard to a quick solution to an immediate need by
4 one regulator here in the United States versus the
5 broader goals that are articulated by the SEC, the
6 CFTC, and the Office of Financial Research with
7 regard to the U.S. Treasury; and, of course, the
8 signature on what they call the lynchpin report by
9 many organizations in the government as well as
10 FINRA.

11 It is a vision that is hoped for to be
12 implemented. What we're talking about here today
13 is the same, same-ol', same-ol', the silo
14 solutions to get a relief in a particular
15 jurisdiction, a particular market with particular
16 regulator, when in fact the goals are much
17 broader. And if we don't have a concept, like the
18 internet registry for example, around legal
19 entities that traverse every product within the
20 financial space across the globe, we'll never get
21 the permanent solution or reach the vision that
22 we're looking for.

1 So, I'm suggesting that we are
2 continuing to respond to the individual regulators
3 for their immediate needs with immediate solution
4 when in fact the vision is much broader and the
5 interest in solving this problem permanently has
6 always basically thwarted us.

7 MR. MAGNUS: With all due respect, that
8 is not what I suggested. The IIGC is an
9 international body of market participants. They
10 have delivered international solutions in the
11 financial market space, and they have worked with
12 the international regulatory bodies to solve what
13 are problems. While it would be a lovely thing to
14 try and create identifiers that solve absolutely
15 every problem in the financial services space,
16 across every single aspect of financial services,
17 I also believe that you need to walk before you
18 can run and you shouldn't try and boil the ocean.
19 And the space that we're talking about, the OTC
20 derivative market, the global OTC derivative
21 market, is a reasonably good proxy that if we
22 solve it here we will end up with a solution that

1 can probably be used in a much broader concept,
2 because the concept of who you're trading
3 counterparties with, the legal entities I am
4 trading with and the roles that they play in the
5 market, are not inconsistent in other parts of the
6 market.

7 And if we use the comments that Raymond
8 mentioned earlier about the futures market, those
9 same concepts, by different names, are used in
10 other parts of the market. So, I do think that
11 the solution that I suggested -- and I'll let my
12 colleagues in the other financial institutions --
13 you know, they can contradict me if they like --
14 but I do think that will be an approach that would
15 work and we can get a small number of people
16 around the table to actually get to a solution
17 quickly.

18 MR. SULLIVAN: I certainly would echo a
19 lot of what Arthur just said. I think the key
20 here is not that we're trying to get every
21 possible use ever for some concept called the
22 legal entity and find that solution right now.

1 But there are certainly a number of legislative
2 mandates already issued, certainly a lot of global
3 discussion currently underway about what the
4 expectation is in other jurisdictions. And we
5 know the vast majority of the participants on that
6 side of the table, and getting them together to at
7 least identify the places where although we don't
8 have the rules written yet or even drafted yet we
9 understand the concepts trying to be solved so
10 that when we do build a solution that very
11 narrowly focuses on solving the CFTC rules for a
12 specific set of instruments in a specific market,
13 it's an extendable solution that will fit the
14 SEC's requirements, the OFR's requirements, FSA's
15 requirements -- because those are being discussed
16 in a collaborative and cooperative framework
17 around the world.

18 The original question that started this
19 current debate is do they all need to be at the
20 table? I think the short answer is yes, to make
21 sure that we agree high level the "what" and if
22 there are still gaps we at least acknowledge where

1 we've got to build in contingency, because we've
2 yet to define some of the possible uses so we
3 don't build a framework that we end up throwing
4 away two years from now because we finally got to
5 understanding those other needs.

6 MR. McCLYMONT: I think, just to build
7 on that, I mean what was the statement we said
8 right at the start of today. It was we would like
9 a unique and counterpart ID to be able to deliver
10 effective, efficient transparency from a
11 regulatory reporting perspective in OTC
12 derivatives. That was our immediate open stance.
13 So, if that's our objective, we need to say okay,
14 what is the design? What is the process? What
15 are the solutions to go to immediate objective?

16 I absolutely agree with Allan. We need
17 to ensure it's not a silo solution. But I think
18 again we've demonstrated in the past that a lot of
19 the ways we've approached the derivatives
20 structure in OTC have actually been (inaudible)
21 cross into other products such as futures and cash
22 equity. And even though they may be the more

1 mature products in terms of mature derivative
2 structure, they've learned a lot of lessons from
3 the build-out in OTC over the last 5, 10, 15 years
4 and are now replicating in those asset classes.
5 So, I think we would be foolish to build an OTC
6 solution, and I don't think we would do that, but
7 I think we just need to be very clear on what's
8 our objective, what's our time frame, what our
9 design would look like, and how we can accommodate
10 that.

11 MS. GOLDMAN: Just to add on to those
12 points, I would echo, you know, those same
13 sentiments in terms of scope. I also think that
14 the scope applies to not only the coverage but in
15 terms of what data we're collecting and so to the
16 extent that we understand the uses of that data
17 and sort of plan our approach in a way that we
18 collect the most critical information up front,
19 and to some of the points discussed earlier
20 regarding entity hierarchies, that we really
21 identify a scope in the initial rollout that is
22 specific to, you know, core information but we

1 also include major legal ownership in that
2 information in order to accomplish the kind of
3 systemic risk management that we're trying to
4 achieve here.

5 MR. PUSKULDJIAN: When you think about
6 the identifiers, you know, one of the things that
7 struck me was that the regulators actually use
8 different nomenclature when they refer to them.
9 The OFR uses LEI; you guys use UCI. We should, I
10 think, harmonize that so that we're all using the
11 same nomenclature.

12 And, you know, I think it's a great
13 thing that the people around the table actually
14 are familiar with the different regulators and
15 what they want to do, and as an industry we don't
16 want to do the small pull times. We don't want to
17 do something for the CFTC, SEC, and OFR. We want
18 to do it one time and be able to service the needs
19 of all the regulators. So, you know, I don't
20 think it's a very silo-based approach at all, and,
21 you know, with the right cooperation of the
22 industry participants and all the regulators who

1 are involved, I think we'll come to a very good
2 solution.

3 MR. TAYLOR: I should maybe provide a
4 word of explanation on that last point, because
5 I'm the guy who wrote UCI in the rule. (Laughter)
6 We did it on purpose. What we intend agrees
7 exactly with what you say. We said "UCI" rather
8 than "LEI" trying to recognize -- I mean, to me
9 LEI is the term for the broad use of the
10 identifier across the entire financial sector.
11 That goes way beyond identifying swap
12 counterparties. And identifying swap
13 counterparties is sort of the job that was handed
14 to us. We were handed a situation. Somebody said
15 to me in the break, you know, the difference
16 between the situation we all face today and what's
17 existed for the last 40, 60 years when people have
18 been recognizing for a long time that this was
19 maybe useful is that you have regulatory
20 compulsion. I guess we do. And on the schedule,
21 the first thing that comes up is us coming up with
22 an identifier for swap counterparties and swaps

1 under the CFTC's jurisdiction. But it's
2 absolutely not our intent to be a separate silo.
3 We're trying to walk in lockstep with SEC, you
4 know, and to make a UCI, because maybe that's a
5 finite early achievable thing, but to do it in a
6 way that it can become the LEI -- if that makes
7 sense.

8 MR. GRODY: Well, I can only tell you
9 this. All right, as we have diverse interests
10 around our global financial services data and
11 standards alliance, the table that we would have
12 to draw would be huge, because while these people
13 represent domain knowledge in the over-the-
14 counter derivatives market and in the futures
15 market, there is a huge amount of siloed products,
16 markets, infrastructure entities that support it
17 with its own terminology in its own and within
18 different geographies. It is a huge undertaking.
19 It has defied solution to this point. It only
20 gets more complex. That's why the difference
21 being regulatory compliance to get us to do this.
22 It's not easy. It's not going to be quick. But

1 if we don't come up with a framework, all right,
2 we're going to wind up with siloed implementations
3 against silo regulators, and we're going to have
4 another level of complexity beyond what we already
5 have.

6 MS. LEONOVA: Okay, can I ground this
7 conversation? So, what is the first step?

8 MS. GROSS: Could I intervene? Francis
9 Gross, ECB. I think we have two different sets of
10 problems or challenges to overcome. The one is
11 design of a standard, which needs to be done and
12 agreed by the stakeholders. That means industry
13 and the authorities that will use the reporting
14 data. And the second one is to reach
15 international agreement among the lawmakers in the
16 various countries that will mandate that standard.
17 One aspect we have already repeated many times is
18 that we can't boil the ocean and serve all the
19 needs at once, so I think we need to start with
20 something feasible and where the need is immediate
21 and try to design as much as possible upward
22 compatible so that it can solve in service steps

1 the next generation of problems.

2 Now, under the design of standards, we
3 talk about the very large table. Well, we could
4 use an existing infrastructure. For instance,
5 there is ISO. ISO is an international
6 organization that has a lot of experience in
7 building standards that are accepted by industry
8 worldwide for the most successful ones. There
9 might be other such bodies where industry comes
10 together through these standards. Usually those
11 bodies do not get a lot of attention, because
12 people (inaudible) by firms are not very much
13 empowered to do anything, but perhaps this time
14 the attraction could be larger. So, that could be
15 for the design of standards.

16 For the adoption of standards and
17 mandating the standards (inaudible) I think we
18 will have two things - one, the powers that be
19 among the countries not come together. Now, I can
20 say from Europe that thee awareness in Europe for
21 this kind of issues is now growing. We are in
22 contact with the Office of Financial Research.

1 Louis Alexander has visited Europe last week and
2 talked to everyone whom I talk to here in Europe.
3 And therefore we have a process of building a
4 political will that's well on its way.

5 Now, in the U.S. legislation is in
6 place, and the U.S. is one country. It can go
7 very fast and won't wait. Certainly not. Europe
8 is a little bit more complicated, so what we need
9 is to have as well in the U.S. standards or a set
10 of standards adopted that will be acceptable to
11 all and here if we adopt the solutions that, one,
12 to go through a group like ISO, then it would be
13 acceptable in Europe more easily.

14 The next stage is to initiate
15 discussions, and here perhaps a forum like G20
16 could be the one. And also to include in the
17 discussion institutions with a global reach, such
18 as the Bank for International Settlements and the
19 IMF. That could then bring together the countries
20 that want to participate in the first round. And
21 then I count on settlement of development of
22 international pressure and through government and

1 through the industry as well for having further
2 gone to an end, and that way we could have a
3 mechanism that grows in a modular fashion.

4 MR. TAYLOR: All right, I thank everyone
5 on the panel. This has been very, very useful,
6 and there were some interesting suggestions on how
7 to answer these questions.

8 So that we don't run out of time, we
9 would like to move to our question-and-answer
10 session, and this is designed to let people who
11 are in the audience ask questions of the panel in
12 a sense over the whole discussion we've had all
13 morning about unique counterparty identifiers.
14 There is a microphone in the aisle over there and
15 a microphone over by the pillar over here so that
16 you can be heard asking a question. Please feel
17 free to chime in.

18 MS. LEONOVA: Arthur, I know you want to
19 do something.

20 MR. MAGNUS: Well, while we're waiting
21 to get the microphones, I was just going to answer
22 your question about how you can move very, very

1 quickly.

2 There is a SIFMA working group that is
3 already set up that is looking at this problem
4 that I believe the CFTC has already met with, and
5 that includes representatives from the industry.
6 The IIGC is ready to get involved also. I think
7 as supervisors you can set a deadline, which I
8 think you actually did in that forum, to come up
9 with a blueprint or straw man for what those
10 objectives are and get them on paper, and then we
11 can move to an RFP-type phase. So, I do think we
12 can move very quickly to get something that is
13 practical in place, and it may change over time
14 but let's get something in place that we can start
15 working with.

16 MR. TAYLOR: Really quickly, as audience
17 people come up to ask questions let me just ask
18 around the panel, is that SIFMA-led sort of
19 virtual consensus process, if I can call it that,
20 do you all see that as a viable way to run this
21 and is it inclusive enough? Are there others who
22 need to be added into it?

1 MR. McCLYMONT: I mean, I certainly
2 think in the past using is during CFMA we've very
3 effective at delivering solutions to market. So,
4 I think it's got a history that shows that that
5 consensus collaboration approach between
6 regulator, industry user, and also vendor and
7 solution provider is effective, is the right way
8 to go.

9 MR. SULLIVAN: Certainly given the
10 changes to the governance model across the
11 creation of the IIGC I think addresses a number of
12 the legacy concerns that have been about the scope
13 of representation. I would say that there is both
14 buy-side and sell-side full-market participation.
15 So, certainly for the industry participants and
16 users of this process, we are well represented. I
17 think ODRF is a great framework to look at for
18 coordinating the regulatory side of the equation.
19 I think both you and the SEC have been added to
20 that group, so, you know, that's certainly the
21 right foundation, and it needs to be expanded to
22 address this more globally. Certainly we'd be

1 open to that. But I think there is both a global
2 industry and global regulatory forum now in place.
3 So, that certainly gets the two mainstream holders
4 together.

5 MR. TAYLOR: Are there questions from
6 anyone listening in the audience for the panel?

7 There's always this moment of dead
8 silence. And unfortunately I'm not a law
9 professor. I can't call on you guys by name. But
10 I'm sure someone has a question.

11 MS. GOLDMAN: No, I was just going to
12 add to the question about -- to the message, and
13 that we would agree as well that SIFMA has been a
14 very productive way to sort of identify the items
15 and propose some solutions around that, and so
16 it's been a very productive forum.

17 MR. McCLYMONT: So, just also I think --
18 again I've said it a couple times now -- I think
19 clearly defining the objectives and the
20 requirements with the various stakeholders is a
21 must, because we will do what we always do as I
22 said a couple of times. We'll spin our wheels and

1 go off in different directions. So, I think that
2 fall that we had with, for example, the ODRF, we
3 managed to discuss with them what their thoughts
4 and what their requirements are to actually
5 solidify (inaudible) requirements, because often
6 people think they know what they want, but when
7 you actually discuss and explain well, how can you
8 get it, it's actually not quite what they wanted.
9 So, I think that open dialog to really clarify and
10 crystallize the objective of the requirements will
11 allow us to move much faster than into a
12 identification or a review of the process or the
13 functions that could deliver that solution and
14 then actually then the vendors and the design of
15 what the solution is itself.

16 MR. GRODY: I would like to ask the
17 simplest of the questions. Do the auditors of the
18 public companies have a role at the table? And
19 the reason I ask that is because the auditors
20 basically are given the task with the legal entity
21 that we're trying to identify to actually lay out
22 the structures of their hierarchies every quarter

1 and sometimes the bigger companies have permanent
2 staffs to actually resolve the legal structures so
3 they could apply their attestation function and
4 sign off on the materiality of their audits. And
5 we have always considered them in our construct to
6 be important, because they in fact organize
7 themselves around a database of those legal
8 structures -- the big four at least -- and they
9 have shared that knowledge with us, and I pass
10 that on to you to be a consideration.

11 MR. MAGNUS: I would consider we have to
12 go back to what's Stuart said a moment ago: What
13 is the objective? If it's to identify swap
14 counterparties, which are specific entities and a
15 hierarchy, when the client is a corporate that's
16 fine, but if the client is a fund manager,
17 managing multiple funds, a fund may have multiple
18 fund managers, there are multiple hierarchies, one
19 needs to look at. And so the question goes back
20 to what Stuart said a moment ago: What is the
21 objective? Is our objective to understand
22 counterparty risk? Is it to look at systemic

1 risk? Does it look at market manipulation or look
2 for market manipulation? These are different
3 objectives, and they have different hierarchies.
4 And the financial auditors that you refer to are
5 only looking at the corporate hierarchy, not
6 necessarily all the other hierarchies. So, I
7 think that you need to understand what the problem
8 is and then you can bring the right people to the
9 table to help solve that problem. But you've got
10 to start with what is the problem we're trying to
11 solve?

12 MR. GRODY: Well, the auditors do audit
13 the investment managers, their structures, and
14 mutual funds, and what they own and don't own in
15 the same way that they audit corporations.

16 That's number two, we continue to have a
17 dialog about what I consider to be a narrow focus,
18 which of course is the focus of the CFTC but
19 always within the broad framework of the SEC's
20 rulemaking and the OFR's rulemaking and the
21 thought beyond that of a global solution. And so
22 that's why I continue to suggest that the solution

1 we have here has to be framed within the context
2 of the overall rulemaking.

3 MR. SULLIVAN: I think there is
4 definitely consideration for that and probably
5 hundreds of other uses for this data. The key is
6 identifying the "what," which is the framework for
7 writing a process to identify parties. And I use
8 "parties," not "legal entities" because as Arthur
9 has correctly said, there are multiple ways. A
10 database that creates an identifier for parties,
11 which then can be used as inputs to hierarchies of
12 different uses, whether it's supervisory or
13 accounting validation or, you know, counterparty
14 credit risk management or market risk management.
15 Those are all obvious extensions of this data, but
16 if we think about solving all of those in a single
17 implementation, we're back to boiling the ocean.
18 And the key here is to agree on the "what," which
19 I think we're saying let's not focus solely on the
20 term "UCI" but extend, look at the broader
21 Dodd-Frank legislation and the legislation being
22 discussed in other major jurisdictions and say is

1 there a way to come up with a common identifier
2 for parties that could be utilized to meet the
3 requirements of each of these rules such that
4 don't end up having to build a solution for UCI
5 and a database and a solution in LEI for another
6 database and a solution what the SEC needs and
7 another database -- and that's before we've left
8 the North American post.

9 So, I think, Allan, your point is valid.
10 I think the key is making sure that we don't try
11 to scope the solution to this project to be so
12 broad that we try to solve every one of those
13 implementations in a single solution.

14 MR. TAYLOR: I hope it's clear from the
15 proposed rule -- we want the UCI, which is, you
16 know, our sort of narrow mandate, to be designed
17 in a way that it can become the broader LEI and
18 that it can serve all of those regulatory purposes
19 that Arthur was talking about, not just the ones
20 that are the mandate of the CFTC but, for
21 instance, prudential and systemic risk
22 supervision. So, all of those purposes would need

1 to be taken into account, even as we design the
2 first step avoiding boiling the ocean by just the
3 UCI. We want it to be such that it doesn't create
4 what needs to come later -- if that makes sense.

5 MR. SULLIVAN: I think I agree. I think
6 the issue -- we might spend some time looking at
7 it from both directions -- which is identify the
8 legal entity, define that term, build a decision
9 where UCI could be a special-use case of that
10 data, right? And then other hierarchies are going
11 to use that in other ways. But I think it was
12 clear to me in reading in the proposal that that
13 was the goal, so.

14 MS. LEONOVA: It looks like everybody is
15 tired and undernourished and needs lunch.

16 (Recess)

17 MS. LEONOVA: Now we proceed to Panel 4,
18 Unique Product Identification, UPI, disclaimer.
19 All persons had the passionate desire to switch
20 from Panel 5 to Panel 4 and we are happy to
21 accommodate the switch.

22 Questions have been distributed prior to

1 that and I guess we need to give a small
2 background to begin with our marvelous rule about
3 what we are taking about. As a concept, we need
4 product identifiers is geared mostly to boards
5 specifying their underling nature of the swap. We
6 tend to think that it's going to be somewhat
7 different from equity credit type instruments and
8 commodity type instruments and we are willing to
9 differentiate those classifications as we feel
10 appropriate, but as we go forward, let's start
11 from the first question. What is the most
12 effective and efficient system for product
13 identification for the purpose of data aggregation
14 keeping in mind those underlying asset class
15 differences?

16 MR. ARORA: Let me start. I'm Kulbir
17 Arora from Goldman Sachs. First of all, thank you
18 to the Commission for having us here. I think,
19 Irina, you hit the heart of the problem in the
20 sense that if we are not clear about the purposes
21 and the usage of these identifiers, things are
22 going to become very complicated. Aggregation

1 across various dimensions is obviously one of the
2 use cases. I think price transparency is another
3 use case. The CFTC has started a very detailed
4 and prescriptive product topology, attributes such
5 as contract type, subcontract type, asset classes,
6 option types and so on, and I think those are very
7 necessary and critical attributes to distinguish.
8 But I think we need to understand that one of the
9 key features of this marketplace in the last
10 several decades is the very dynamic, evolutionary
11 nature of this market. There is a lot of product
12 innovation that happens.

13 One of our worries is that if this
14 product topology is over prescriptive and owned as
15 part of the rules, then constantly upgrading it or
16 changing it will be very burdensome and probably
17 would require rules rewriting. I think a better
18 way to own this would be to bring regulators and
19 industry participants to the table under the
20 auspices of organizations such as ISDA, more
21 appropriate here than SIFMA, because that way the
22 maintenance and constant evolution could be part

1 and parcel of -- there are a range of value sets
2 for each of these attributes that a good starting
3 point has already been achieved but the constant
4 evolution that's going to happen is one of the
5 issues.

6 Irina mentioned the distinction between
7 credit type instruments where some standardization
8 in the marketplace can happen and one could
9 conceive a CUSIP style identifier that references
10 a very standard FpML as an example description,
11 but for the large other part of the market,
12 interest rate products for example where every
13 deal arguably is a product unto itself, I think
14 referencing the product topology in the data
15 requirements is the unique identification part of
16 it. The question here is that when you regulators
17 talk about aggregation, along with dimensions are
18 you intending to aggregate based on the purposes
19 of the rules? And some of the attributes allow
20 for that aggregation to happen across asset
21 classes or underlying assets for example, but I
22 think that clarity is very necessary today. Thank

1 you.

2 MR. HAASE: I'm Ken Haase and I'm with
3 the NFA, and also we would like to thank the
4 Commission for inviting us here. I really will
5 agree with very much of what you have just said.
6 We do need some definition, but it can't be
7 terribly tight at this point. You have to allow
8 for the future of the unknown and that's always a
9 concern with any type of system data field or
10 anything you're trying to put out. In this area
11 in particular I think it's quite different than
12 futures simply due to the amount of underlyings
13 you could have and some of the very, very unique
14 types of products you could be trying to identify
15 and that may not just fit into a small defined
16 field. This may end up being almost descriptive
17 in some instances.

18 MR. CUTINHO: This is Sunil from the CME
19 Group or CME Clearinghouse. I don't want to
20 repeat what has been said before but I agree with
21 some and most of the comments made. Over-the-
22 counter derivatives are not as specific or

1 standard as some of the commodity derivatives that
2 are trading on exchanges. But one of the things
3 I'd like to add is it's very important that we
4 understand the need and the aggregation and based
5 on that we could come up with an algorithm.

6 Rather than have an entity designated to create
7 these identifiers, our preference would be to work
8 with industry and come up with an open,
9 transparency algorithm so that these identifiers
10 can be generated in a very deterministic manner.

11 I did hear the comment of descriptive.
12 We support that idea because unlike the
13 counterparty identifier where you cannot be
14 descriptive to maintain anonymity, here in this
15 case it's a product identifier so that based on
16 its need we presume it's reporting and real-time
17 price dissemination so that descriptive is of the
18 essence here and the more descriptive the better.

19 MS. DREW: This is Eleanor Drew from
20 Citi. I'm in charge of the Master Data Management
21 Program, both the technology implementation and
22 the operations space. We're very supportive of

1 industry standardization. In my particular role
2 in the firm I've been waiting for this for 10
3 years because my life is miserable trying to
4 string together all these different identifiers.

5 One point I wanted to bring up is when
6 you look at security data across cash and
7 derivatives, there is a life cycle associated to
8 it so that when we look at data management on this
9 there is entity, there is issuer, there is product
10 specific data and there are corporations actions.
11 In addition to that, there are hierarchies
12 associated with those domains so that it is very
13 important that we take a step back and model it so
14 that we could fully understand the life cycle of
15 the instruments through the different flows to
16 make sure when we design something we do it once
17 and not continue to go back and back and redesign
18 because we're very -- on our design so that that
19 is one of the points. I very appreciate you
20 inviting us to this panel.

21 MR. CHIDSEY: Since it seems like we're
22 going around, this is Ed Chidsey from Markit

1 Group. I think it comes back to what some of the
2 others were saying in terms of what problem are we
3 trying to solve, what use case are we trying to
4 solve, and if it comes as an example of
5 understanding what instrument is referenced for a
6 given price, there are going to be different data
7 fields that are required for a particular
8 instrument or asset class. So if you take credit
9 default swaps as an example, you really need
10 reference entity tier of debt which today is
11 typically derived from the reference obligation,
12 maturity date, clause and currency so that there
13 are five fields that are required to understand
14 what instrument you're reference in a credit
15 default swap transaction that would be attached to
16 a given price and each of those fields could
17 potentially be identified through some sort of an
18 alphanumeric identification scheme. Tying all of
19 those together is something that could be
20 considered, but then when you look at another
21 instrument whether it's interest rate swaps or
22 other derivatives, there are going to be a

1 different set of fields that are required in order
2 to understand that instrument you're describing.
3 So I think it's important to decompose it to a
4 point where you understand the fields that you
5 need to identify, the instrument that you want to
6 describe for a particular purpose and then think
7 about what standards can be applied to each of
8 those fields. Some of those are very common,
9 maturity date, currency, you can have standards
10 for that. Others may be very asset class specific
11 and we'll need to think about what those standards
12 could be.

13 MR. LITKE: Adam Litke from Bloomberg.
14 I'd like to thank you for having me here and I'd
15 like to echo what everyone else said, so I won't
16 repeat it.

17 I think from what I've read of the rule,
18 you've talked about using the identifiers to set
19 limits but you're not actually collecting any risk
20 information with that and derivatives aren't
21 really like futures contracts. It is possible
22 using other parts of the rule where you're

1 requiring the confirm data to then go and compute
2 risk information, but since an over-the-counter
3 derivative can have multiple legs and multiple
4 underlyings, I think the purpose in the rule the
5 way it's written now it's a little confusing. I
6 think if we're talking about having enough
7 identifiers so that the Commission and other
8 regulators are able to see the risk of the deal
9 and say there is so much risk in the market to
10 these products, then you're talking about within
11 the context of the confirms having for each field
12 a specified bit of information. In a swap it's
13 not even obvious. You might say I can do a plain
14 vanilla interest rate swap. It's cash. There's
15 cash and there's the fixing rate which may be
16 LIBOR. Do I identify that as a single asset or do
17 I identify that as each leg, one leg is cash in
18 dollars and the other leg is a series of LIBOR
19 fixings and dollars? I would argue you'd probably
20 want to go to the very atomic level of the second
21 of you'll end up extremely confused because cash
22 on a swap and cash on an interest rate swap would

1 no longer be the same thing just to give a simple
2 example. So I think the discussion in the rule is
3 in the wrong place, but if you moved it over to
4 the confirm descriptor then I think there's a very
5 good discussion to be had and the main thing is to
6 be as atomic as possible to say for each
7 individual think and then you get a lot of
8 consensus where everyone agrees on what all the
9 fixings are for example.

10 MR. TUPPER: My name is Bruce Tupper and
11 I work for the Intercontinental Exchange or ICE
12 and I manage the Commodities Confirmation and
13 Warehouse. To follow-up on some of the comments,
14 I think it's become clear that there are solutions
15 in the market by asset class. There are many
16 services, whether they be warehousing compression,
17 confirmations and each of them have to come up
18 with their own scheme in order to capture the
19 concept of a product or trade type. I do agree
20 with earlier comments to try and understand that's
21 the purpose because we, or at least I can speak
22 for Intercontinental, create products for a very

1 specific reason as an exchange and as a trade
2 warehouse but in order to trade the correct
3 products for the Commission, for example, if
4 you're trying to aggregate up exposure on a
5 particular index, that may be a different way than
6 in some of these products. We say at least in the
7 commodity space, when we were creating our product
8 schemes we looked toward our customers' trade
9 capture systems and the trade capture systems that
10 were offered by the vendors to come up a scheme
11 that people could collectively write to and adopt,
12 but we did that for a specific purpose. So I
13 think probably some clarity on what you're trying
14 to do with the products as far as from the
15 Commission's perspective would help us.

16 I do agree that once you have that and
17 there's a working group, that can be solved. I do
18 agree that we should probably look at this from
19 more of an asset class perspective because I think
20 each asset class has its own ways of doing it.
21 Like I mentioned earlier, CDS has a certain way
22 and commodities may be different and I'm sure it's

1 different in other asset classes so that that is
2 probably a consideration for the Commission.

3 MR. PERSSON: I'm Ola Persson from FINRA
4 TRACE. I'd like to echo what Sunil mentioned on
5 the dissemination side and the investor protection
6 issue in terms of -- either can understand what
7 they're looking at based on the identify that came
8 out or that sufficient descriptive information is
9 made available together with that record so that
10 they understand how to interpret that data. The
11 other thing I'd like to tie back to with what you
12 mentioned that we are obviously in the process of
13 expanding TRACE to cover securitized products at
14 this point and we're going through some of these
15 issues because there are a fair amount of
16 securities that trade assigned CUSIP and clearly a
17 joint industry regulatory solution is a very good
18 way to go because whatever as a regulator we come
19 up will have to work for everybody anyway so that
20 sitting down at the table is very, very helpful.

21 MR. ARORA: I think that the subset of
22 products that is highly standardized like the ones

1 that trace on ICE for example, an identifier that
2 if an canonical representation of standardized
3 products which is a subset of the broader market,
4 I think that probably is not a controversial topic
5 here. It's the rest.

6 I want to comment on the verbal
7 description comments that Sunil and Ken already
8 referenced. If you look at the C.F.R. Part 43
9 that CFTC has put up and I've gone through it in
10 gory detail, I think it's a very good starting
11 point. There is a very detailed set of attributes
12 with possible values for example as I said earlier
13 what a contract type is, what a subcontract type
14 is, what an asset class is, what the underlying
15 asset is, there is a topology or tree-based
16 topology that is a very good starting point for
17 this and I think that that would be a description
18 for the nonstandardized products part of the
19 market and it's almost descriptive because it
20 pretty much lays out the hierarchy. I'll
21 underscore that the main point I'm talking about
22 is that this topology is going to be an organic,

1 living topology that's going to innovate and
2 change so that the ownership of that and how you
3 delink it from the rules themselves is a key
4 point.

5 MS. LEONOVA: What is an efficient way
6 to accommodate the innovation of those
7 instruments?

8 MR. ARORA: I think make the industry as
9 a whole responsible to maintain that in
10 conjunction with the regulators because the
11 regulators will ultimately keep specifying
12 purposes. Purposes themselves may change over
13 time, but I think that way a consortium of
14 industry participants co-owning that topology
15 would probably make it easier to maintain that
16 prescriptive topology from just one of the players
17 in the marketplace.

18 MR. CHIDSEY: Again I think looking at
19 is then what's been done with FpML is a standard
20 way to describe financial transactions across a
21 variety of asset classes and instrument types is a
22 good example and when a new instrument needs to be

1 created or added there is a working group that
2 opines on that and ultimately it gets defined via
3 FpML and the necessary fields to describe that
4 particular transaction or instrument are utilized
5 so that a similar sort of model can be used going
6 forward to manage this topology.

7 MR. LITKE: I think I agree for the vast
8 majority of contracts that FpML is good. I think
9 for exotics you have to be a little more careful
10 and you need some sort of scripting language.
11 There are vendors that sell them. There is also
12 one of your fellow regulators. The SEC has
13 proposed for example for securitizations using
14 Python code that's made available. You'd still
15 have to have standards for it because this would
16 be a different than their use so you'd have to
17 standardize what the terms meant, but you need
18 something like that in order to accommodate
19 innovation. The vast majority of transactions
20 will still be done in the standardized format,
21 let's say something like FpML and you could have
22 some rule that said if some class got over a

1 certain size there would be a way to we recognize
2 these are all sort of the same, create an extra
3 FpML class and then to come back to the industry,
4 but without that you're going to standardize
5 everything which sort of goes against what the
6 whole OTC market is about.

7 MR. ARORA: May I comment on that? I
8 think on the highly exotic part of the market, the
9 one way as you said is to essentially have Python
10 code level standardization. The potential problem
11 there would be how much transparency to the
12 players in the market want to give each other to
13 what may be proprietary stuff and that speaks to
14 competitiveness. I think one of the approaches
15 that within the FpML groups, the various
16 participants have discussed for the highly exotic
17 market is again going back to what ultimately will
18 be the purpose of these descriptions for the
19 marketplace. It may be possible, I'm putting it
20 out there as an idea, to have the notion of a
21 generic description which essentially captures
22 just the bare minimum that may be sufficient for

1 the regulatory purposes and a full-blown
2 description is right at the outset taken as not a
3 possible thing to do in a highly dynamic way.
4 Internally we have attempted that and I think we
5 have succeeded with it pretty well and we're
6 pretty happy with having this subset and we call
7 it the generic exotic instrument. Just a thought.

8 MR. TUPPER: I'd like to follow-on on
9 that point. I do want to caution the Commission
10 against prescribing a particular messaging
11 protocol. For example, FpML has had a lot of
12 adoption in some asset classes but probably not so
13 much in energies. To follow-up though, I do agree
14 with the idea of having a more generic reference.
15 For example, within ISDA there is the Commodity
16 Definitions Working Group and their purpose is to
17 update these indexes that are used in the various
18 swap transactions. Ideally they can be very
19 complicated and exotic but many of them always tie
20 back to some kind of description or particular
21 index regardless of the asset class.

22 We spend a lot of time working with that

1 group in particular because by having those kind
2 of generic codes that are really the building
3 blocks of most swaps and having clarity with those
4 it allows you to process a lot more transactions.
5 I don't want us to confuse having those building
6 blocks versus a very robust messaging protocol in
7 order to communicate the trades. When you start
8 getting into exotics and processing them, it comes
9 back to what is the Commission's goal. Are you
10 trying to find a particular exposure for an index?
11 Even though it's an exotic trade, I'm sure that
12 this group could probably easily do that for you
13 so that it could come back to that. Specifically
14 for commodities, you could use the example of the
15 Commodity Reference Price Index Working Group.
16 They regularly update that and that's something
17 that you could look at for product definitions.

18 MR. CUTINHO: I don't often agree with
19 my colleague, but this time on the panel I do
20 agree with him that we cannot prescribe a specific
21 language. As an example, as a business we support
22 multiple standards. Some are prevalent in the

1 securities market, some are prevalent in the
2 standardized futures market, some are prevalent in
3 the over-the-counter markets and it's less
4 disruptive to market participants across the
5 board. If I were not a technologist I would have
6 thought you guys are talking about snakes.
7 Python?

8 To emphasize one point, I think we talk
9 about what is the desired use of this product
10 identifier? To put it another way, you can't
11 expect the product identifier to be everything.
12 You can't expect it to be very unique capturing
13 all the details of the trade. You can't expect it
14 to be at the same time very generic. So we have
15 to choose between the two. When the Commission
16 says specify the underlying nature of the swap,
17 what do we really mean by that?

18 MS. LEONOVA: I guess it's time to
19 narrow down what we are talking about. If we are
20 trying to achieve too big a goal of capturing the
21 exposure metrics and at the same time trying to
22 control the speculative position limit mechanism,

1 do we follow the same system of product
2 identification or do we have to go in different
3 ways?

4 MR. LITKE: I think unfortunately
5 they're different. I think as soon as you get to
6 the speculative position limit you need to capture
7 risk information. Let's say you knew it was
8 something like LIBORs or you're going to do it in
9 future equivalents, the mere fact that you have a
10 swap or various kinds of options, just in a simple
11 option the delta changes every day depending on
12 the time to maturity and the price. As you get
13 into more exotic instruments it can vary quite
14 wildly. You could capture that as a risk field,
15 but that's a computed number that would have to
16 get reported every day and what gets reported at
17 the time of trade is not particularly relevant.
18 You might want to specify all of the risk fields
19 that a transaction needs to be mapped to, but even
20 that depends on the underlying model you're using
21 so that you're asking for somebody to report
22 something that's really something unfortunately

1 the Commission is going to have to do for itself
2 which is decide how they want to measure the risk
3 on the transaction.

4 MR. CUTINHO: Since I asked the
5 question, I have to respond. I echo Adam's point.
6 It's not just the counterparty information, when
7 we talk about exposure we need to understand the
8 specifics. Exposure to what and position limits?
9 Let's say, I'll give you an example, if you're
10 looking at the very granular level and you say
11 that I want to just look at limits on 1-year --
12 that means very little because you can have a
13 party trade very little on the short end of the
14 curve but take greater exposure to the middle part
15 of the curve or the end part of the curve. In
16 terms of exposure and position limits, what we are
17 trying to understand is what is the overall goal.
18 We are starting from the premise that it is
19 systemic risk to understand if that a single
20 entity has undue exposure or very large exposure
21 to a certain market or a certain part of the
22 market and the effect that the economy can have on

1 that single counterparty and then how it
2 translates to the rest of the market. If that's
3 the case, maybe we need to have a discussion as an
4 industry with our participants around here as to
5 what exactly is the Commission looking at and
6 perhaps we can come up with some of the principles
7 as far as creating the product identification
8 before we get into the details of how we should
9 generate one.

10 MS. LEONOVA: Going to levels of
11 aggregation of data based on the product
12 identifications and we don't know, where should at
13 least we cut the line off? What levels are there
14 and what is the appropriate level that we should
15 be targeting?

16 MR. ARORA: It would help if you would
17 articulate the purposes to which this aggregation
18 will be used. That will help because that's a
19 very multidimensional problem.

20 MS. LEONOVA: Thank you, Kulbir. Our
21 immediate market oversight goal again is
22 speculative position limits so that when we are

1 talking about that aspect of oversight, we are
2 going back to the futures equivalents and some
3 type of conversion. That's one problem for us,
4 how we convert something in futures equivalents.
5 The second question is systemic risk exposure.
6 When we are trying to capture the system and
7 decrease exposure, what should we be focusing in
8 on? Is it overall net asset value or whether we
9 should build in some kind of curve or what do you
10 think should be the focus?

11 MR. LITKE: I think for the position
12 limits which fortunately I guess primarily you're
13 changed with doing that on the agricultural
14 commodities to avoid people cornering the market.

15 MS. LEONOVA: We used to be.

16 MR. LITKE: But I don't think there's a
17 requirement to have position limits on for example
18 interest rates for a bank. I thought under
19 Dodd-Frank the banks were specifically exempt in
20 terms of proprietary trading, that interest rate
21 proprietary trading was still allowed.

22 MS. LEONOVA: Let's not go into the

1 exemptions but assume that we are trying to cover
2 everything.

3 MR. LITKE: If you're trying to cover
4 everything then you're going to have to for each
5 asset class define what you mean by risk. In
6 commodities it's fairly easy because you're in
7 some sense worried about how much can a speculator
8 corner the market. In interest rates, nobody is
9 going to corner the market and what you're really
10 concerned about therefore is how much can they
11 make or lose and it becomes more of a prudential
12 supervision issue than a market control issue.
13 For that you're back to defining how do I want to
14 measure risk. For systemic risk, you're
15 interested very much in stress tests in the sense
16 that you've got to have some series of stress
17 tests around people's portfolios and see how much
18 margin is going back and forth. But it's
19 ultimately it's model driven so capturing fields
20 is not the issue, it's capturing confirm data in a
21 standardized way so that you can apply models to
22 that confirm data and compute the risk.

1 Effectively what you're saying is you want to be a
2 super- clearinghouse. You want to do the same
3 thing that a clearinghouse does but you want to do
4 it across all the clearinghouses so you can watch
5 all the margins moving through the system and all
6 the clearinghouses have to have their systems for
7 modeling these things.

8 MR. CHIDSEY: One comment in thinking
9 about it from a systemic risk of exposure
10 perspective I think trying to tie it back to the
11 product identifier question is that probably
12 argues for a very segmented set of identifiers
13 across again the different fields to identify a
14 particular instrument because ultimately you may
15 want to look at risk from a number of different
16 angles so that an identifier that collates a
17 number of different fields across a number of
18 different variables I don't believe will actually
19 aid you in that goal. In fact, the more finite
20 the description is the better off you'll be to be
21 able to run scenarios and look at exposures across
22 a variety of different attributes.

1 MS. DREW: From the identifier aspect of
2 things, in us segregating the cash and derivative
3 product identification process and registration,
4 we should look at that and study of it across
5 industry. As to the overall net aggregate
6 exposure you're going to need across cash and
7 derivatives. Us looking at it segmented just in
8 the derivatives space and not being able to roll
9 up, probably we need to look as a unit to see if
10 that makes sense. If there is going to have to be
11 some single entity, there's going to be one
12 hierarchy tree. When you look at a company such
13 as Lehman you're going to have to be able to fold
14 all the positions into one, and not looking at it
15 like that I think across asset class and having
16 common asset categorizations, product
17 classifications across both markets, that's where
18 you're going to do your aggregation in the OFR and
19 in your organization. So I think bringing the
20 trade groups together across cash derivatives
21 having a common taxonomy, having a common set of
22 trade transaction specifications that go out all

1 the investment banks' doors is needed and that
2 common taxonomy is probably something not trivial
3 for us to put together.

4 Purely in the cash space, we don't have
5 a product identifier even though this is in the
6 most mature product. We look at ICE, we look at
7 CUSIP, we look at SEDOL, all fail providing for
8 the cash market how you look at a product. So
9 when we bring in the derivatives space we need to
10 know the underliers. We can't even tell you
11 should you put a SEDOL, should you put a CUSIP
12 depending on what asset you are so that this is a
13 real taxonomy modeling session that we have to
14 have everyone sit down as an industry and really
15 model this to talk about a life cycle and it's not
16 going to happen cheaply or quickly or else we'll
17 do it wrong and we'll have to be doing it again is
18 how I look at things.

19 MS. LEONOVA: How far is the industry in
20 developing the systems of classification or are
21 there any developments in the industry right now?

22 MS. DREW: Within my firm there are

1 different varieties of asset classification so
2 that each vendor or supplier supplies their own
3 taxonomy. As a community we need to have a
4 high-level matrix of what these categorizations
5 should be and that's going to be a lot of heated
6 debate and I'm sure others could add to that.

7 MR. ARORA: Arguably FpML is the first
8 serious attempt at standardization. Keeping aside
9 imposing a particular protocol, the fact that
10 instead of looking at FpML as a protocol, if you
11 look at it as an agreement on what set of
12 attributes describes a particular kind of
13 derivative, it's as far as I'm aware the first
14 serious attempt across players. You're right,
15 Eleanor, that each one of us has internal systems,
16 but the need to bring it all together is more
17 recent.

18 MR. TAYLOR: Let me ask, when I was
19 teaching I used to tell my students there is no
20 such thing as a dumb question. I might be about
21 to disprove the rule. I'm hearing people say lots
22 of things about the need for the important level

1 of granularity in this area and I feel moved to
2 ask you all, the concept here I guess is that each
3 swap that's reported to a swap data repository is
4 going to carry a single product identifier. Is
5 that the right way to do this? Is it possible?
6 Will it work given the multifarious nature of how
7 many products there are, millions if you want to
8 look at it that way in some asset classes?

9 MR. TUPPER: This is Bruce from ICE.
10 There's a subset that you could definitely achieve
11 what you're saying, but it's going to be difficult
12 and Kulbir has definitely touched upon this, we've
13 been taking to a lot of our customers about is how
14 do you capture exotics when that comes up? As to
15 your question, it's obviously your interest is
16 exposure and stress testing. With exotics by
17 nature there may not be a lot of trade records or
18 submissions to the future SDR, however, there is
19 usually very high notional value to those
20 transactions and that's what you're after. The
21 trick is going to be I think you can get the
22 common trades and I would say many of those will

1 be in process today, but with trying to get your
2 arms around how you're going to classify exotic
3 transactions and do that in a manner where you get
4 enough information so you can fall through on your
5 stress tests and exposures is going to be
6 difficult. That's the hard part.

7 MR. LITKE: One thing you might have for
8 things that have become standardized have
9 standardized terms and then I think you mentioned
10 in the rule having something called multiasset and
11 you could also have something called exotic and as
12 long as the exotics are below a certain percentage
13 of what gets traded, then you wouldn't worry too
14 much and if it gets above that percentage then you
15 have and go into a deep drive and ask is there a
16 new standardized name we have to add, but there
17 would have to be a process there. It won't give
18 you risk reporting, but it will give you
19 information about volumes in the marketplace which
20 I think is useful information.

21 MR. TAYLOR: Following right on from
22 that, if we're going to make a system that says we

1 have Buckets A, B, C and D and however many and
2 then we have a bucket called exotic where we
3 haven't classified it, where are the buckets that
4 we can classify and has somebody done the
5 classification system at least for them that we
6 ought to be looking to?

7 MR. LITKE: Everybody has done them and
8 they're all different. You even acknowledge that
9 in the rule where you talk about people talking
10 about whether cross-currency swaps should be
11 considered a foreign exchange product or a rate
12 product. In fact, in most concerns they're
13 considered both. The FX Desk considers them to be
14 a foreign exchange product and the Swap Desk
15 considers them to be an interest rate product and
16 every firm has a single maturity line usually that
17 they've fought over for many years where one
18 business gets to trade them as the market maker
19 and the other one gets to use it as a hedger so
20 that they're called different things once you get
21 inside that line. We all have them but there
22 isn't a standard.

1 MR. ARORA: David, isn't the heart of
2 your question if the exotic bucket has numbers
3 that worry regulators that that's when it becomes
4 standardization? I think one of the ways linking
5 it back to my point about generic, if volumes
6 however we define them because it's not just the
7 number of trades, it could be on a particular
8 dimension be it notional exposure or risk or
9 whatever, where the risk is "worrisome" then an
10 attempt should be made to define it into a
11 standardized product because the volumes have
12 reached that level of threshold. I think up until
13 that point -- you've alluded to there is no such
14 thing as a dumb question, I have an analogous
15 thing. Whenever you make a taxonomy or a
16 classification there always has to be what's
17 called the miscellaneous category or the garbage
18 category so you just can't figure it out. And I
19 think some kind of a process, I echo Adam's point,
20 has to be agreed upon to keep changing this
21 topology or this classification.

22 MR. TAYLOR: A follow-on question to

1 that as well, would it make sense to approach UPIs
2 separately by asset class or not? Are there asset
3 classes where it's easier to do this or where it
4 could be done more quickly? Are there asset
5 classes where we ought to allow more time for it?
6 Is distinguishing by asset class something we
7 ought to do?

8 MR. CHIDSEY: I think if the fundamental
9 premise is a requirement that's around the
10 taxonomy and defining that taxonomy, I think
11 logically to make any headway it's going to have
12 to be by asset class because again there are
13 distinguishing characteristics by asset class. So
14 I think that drives the need to divide the
15 discussions and decisions up by asset class and
16 then from there see if and how a UPI could then be
17 applied to each asset class.

18 MR. TUPPER: I agree. I think there is
19 probably some guidance or some commonality at a
20 very high level for the Commission's benefit you
21 could prescribe some type of way. I know in the
22 proposed rules you did where you were trying to

1 put in an asset class identifier as part of the
2 code and you could begin there, but there are
3 definitely a lot of unique attributes to each
4 asset class and I think in order to have people
5 accept potential unique product identifiers you're
6 going to want to look to the existing systems and
7 how they're doing and if you can work around that
8 you'll gain an adoption rate that participants are
9 going to be able to submit you the data and the
10 way data is arranged, it is different by asset
11 class. That's just the nature of it.

12 MS. DREW: I think the way that you roll
13 out could be by asset class, but as a system
14 designer when I look to build systems, what I like
15 to do is gather all artifacts and create
16 relationships in my modeling as well as my domain
17 values and my taxonomy and then once I have it
18 modeled then I would roll it out on an asset class
19 basis. Just the thought of the entity and how it
20 applies to the cash, how it applies to the
21 derivative and the action, we have to look at
22 solving that problem using that ecosystem. If we

1 segment it, we'll do it really good once for one
2 asset class and the model will completely fall
3 apart when we look at the next asset class. Based
4 on the experience of building a consolidated cash
5 and derivatives environment, I made a lot of
6 mistakes in my past by just doing it segment by
7 segment only to have to redo it. So I would
8 approach it that way as a system builder.

9 MR. HAASE: This is Ken from NFA. I
10 would agree exactly with Eleanor. You really have
11 to at the whole thing. You can roll them out
12 separately but they really have to work with each
13 other. Going back to one other point as far as
14 aggregation and things coming up and what the
15 regulator might want to use the data for. The
16 other question I guess I would ask the Commission
17 is do they view themselves then as the endpoint or
18 is this data being passed up even further to other
19 agencies where they may be doing combinations so
20 that any type of standards or anything that you're
21 setting up obviously has to work with them if
22 there's a place to bring it all up to one place on

1 top.

2 MR. TAYLOR: I'm thinking of a question
3 and I was trying to think how to put it and I may
4 put it badly. I think I've heard probably several
5 of you suggest that it would be a good idea for
6 the industry to be involved in defining this
7 taxonomy and that there be some mechanism for
8 allowing for future development in that and not
9 setting it in stone in the rule. It's always a
10 goal for a regulatory not to have to amend rules
11 and I'm sitting here thinking on February 7 we
12 have to go behind a curtain and we can't talk to
13 you guys anymore and we have to put something in
14 the rule. What sort of mechanism might it be
15 useful to establish for industry and regulator
16 cooperation on defining and maintaining and
17 evolving a taxonomy over time? In other words,
18 what could we say in the rule that isn't going to
19 have to be amended later that sets up a mechanism
20 that can do those things? Did I make sense with
21 that?

22 MR. ARORA: Very much. That goes to the

1 heart of one of my points. I'm not a lawyer and I
2 don't know how to say this, but I think a
3 professional industry organization whose purpose
4 is precisely cross-industry participant
5 standardization with I think the regulators being
6 at the table, if somehow the rules could reference
7 such an arrangement where the ownership of to be
8 specific the part of the topology is held and if
9 the rule could reference a mandate, or what should
10 I say, a demand to abide by that topology for
11 every person in the industry, that might be one
12 way. It's sort of a level of indirection if you
13 will, but it seems to me how that's wordsmithed is
14 your expertise, but I think that may be one
15 starting point.

16 MR. TAYLOR: I'm going to put Ken on the
17 spot. I know if people here are looking for a
18 body like that that could hold this thing, NFA
19 will cross people's minds. Does that sound
20 conceivable?

21 MR. HAASE: I'll give a good party
22 answer to that and say that just about anything is

1 conceivable, but it's up to the board of directors
2 at NFA to make that final decision.

3 MS. LEONOVA: I want to go back to
4 multiasset classes and mixed swaps. What is an
5 effective system to classify multilayered things?
6 Should it follow the same system for any product
7 ID or -- to have one identifier and break it down
8 by components?

9 MR. LITKE: I think if you move the
10 product identifier from the trade level to the leg
11 level you would carry the vast majority of
12 multiasset trades. That would just leave out
13 things like basket options. But if you put it
14 down at the leg level then you effectively say
15 this leg is this type of product, this leg is that
16 type of product and that would get you a long way
17 because then a trade is just a portfolio of those
18 legs. If I trade an option on three stocks or
19 even worse on one stock, one commodity and one
20 foreign exchange, there is no way to really handle
21 it because it's just going to come in as multi.

22 MS. LEONOVA: It doesn't really help us

1 in a way that if we accept the fact that we have
2 multiple underliers, what are you doing about
3 speculative limit position aggregation? Do we
4 double aggregate them or do we single aggregate
5 them? How do you handle it?

6 MR. LITKE: You can't aggregate that
7 way. That gets back to my earlier comment about
8 risk based. Ultimately for things that go through
9 a clearinghouse, the clearinghouse is not using a
10 standardized formula. I don't know if our friends
11 from DTCC are still here, but for example if you
12 look at SPAN margining, there's a formula but
13 behind it there are models and they change the
14 numbers when the models change and if you don't
15 have a risk-based system for those things there's
16 no way to do a standardized formula. In many of
17 those transactions for example there is something
18 called the gearing factor so that I can have an
19 option on 5 times X or I can have five options on
20 X and economically they're the same thing, but if
21 you did your speculative limit without a model you
22 would think they were two completely different

1 trades. So if you really want to have speculate
2 limits, you're going to have to build some sort of
3 risk-based system for all of those things and
4 whether that means requiring people to submit
5 models to you or having your own models, that's
6 going to be up to the Commission but you can't do
7 it in a simplified way and you can't just trust
8 firms to report their numbers because of course
9 every firm has its own models.

10 MR. CUTINHO: Adam, I'm going to
11 disappoint you. It's not the DTCC who is going to
12 help with this, but it will be the CME. So you're
13 right that when we look at risk we don't look at
14 product identifiers. It's across products so that
15 we look at it on a portfolio basis.

16 MR. TUPPER: Just to try to expand on
17 Adam's description, when we take in data, we try
18 to take in data and break it down into its
19 simplest parts and then those models are going to
20 do what they need to do. So from the Commission's
21 perspective, I think if you're going to try to
22 tackle this, what you're looking to do is create a

1 model for whatever purpose, you need those inputs
2 and you need them in their smallest parts and as
3 clean as possible and then you're going to develop
4 whatever models around those inputs to get the
5 reports that you need. I hope that makes sense.

6 To summarize, whenever we're taking in
7 data we always break things down to a leg level or
8 individual reference price level and customers
9 always report exposures based on those particular
10 legs on that reference in the amount of notional
11 dollars they have on that whether they're paying
12 and receiving and then we pass that trade data on
13 to various systems that do different things with
14 that trade record.

15 MS. LEONOVA: So it should be called not
16 unique product identifier but unique model
17 identifier?

18 MR. LITKE: No. The model is your
19 model. You could change your model. One day you
20 might decide that you have the best model in the
21 world for this product and a year later you've
22 come up with an improvement on the model so that

1 you would change that. So that's not a unique
2 identifier per se, it's whatever the Commission
3 decides to use. What you need is enough
4 information in the confirm record that is
5 submitted by the participants to be able to
6 reconstruct the trade so you can take that trade
7 and put it into your model.

8 MS. LEONOVA: This model is going to be
9 asset class specific and is going to identify all
10 the legs that will allow to capture the exposure
11 if you link it back to the confirm?

12 MR. LITKE: There is a data model and
13 there is an analytical model to price it and then
14 there's a risk model that has to run all the data
15 models so that there are three different models
16 there. Only one of them is the data which is the
17 data model for the confirm. The other two are
18 really analytical models.

19 MR. TUPPER: But there are sources out
20 there for you to get the individual pieces. With
21 CDS obviously there's Project RED, on commodities
22 there are commodity price definitions which are

1 done by ISDA so that there are places for you to
2 create those if you're thinking of these
3 individual inputs that are out there that are
4 listed. It's what you're going to do with them
5 afterwards that's really not a product.

6 MR. CHIDSEY: Another way to look at it
7 is there may be an opportunity for unique
8 identifiers almost at the field level and again
9 for certain fields within a taxonomy for a
10 particular instrument it may make sense to have
11 identifiers as a way to ensure that there is
12 consistency and standardization for that
13 particular field so that it could actually be
14 several different types of identifiers for
15 different types of fields, but to try to roll off
16 of that together into some sort of aggregate
17 product identifier I think is complicated and I'm
18 not sure serves the purpose of what you're looking
19 for around risk and speculative position limits.

20 MS. LEONOVA: I'm trying to process the
21 information. It sounds like what you're saying is
22 that we have to come up with a set of some kind of

1 data fields that will be sufficient in order to in
2 general terms describe whatever something is going
3 to be is reflective of this product notion. Do I
4 understand it correctly?

5 MR. CHIDSEY: I think the short answer
6 is yes.

7 SPEAKER: The long answer is maybe.

8 MR. TAYLOR: I have a question passed to
9 me from one of your Data Recording and Reporting
10 Team members who's listening on the phone from New
11 York. We were talking earlier about the exotic
12 bucket among the other buckets and he prompts me
13 to ask, and it's a good question, how big do you
14 think that bucket is? We have some information
15 that suggests that vanilla is probably some high
16 percentage, 80 to 90 percent of all swaps and we
17 shouldn't be all that scared about the exotic
18 bucket, but what's your sense?

19 MR. LITKE: What we see in our pricing
20 service, it's probably less than 1 percent, but if
21 you want to know what somebody's risk is and you
22 have a exotic hedged by a vanilla, that could be

1 the unbalanced part of their book so that it's 99
2 percent of the work and 1 percent of the product.

3 MR. ARORA: I'd echo that.

4 MS. LEONOVA: I want to go back to the
5 product identifier question that we were
6 discussing before. You probably saw that we came
7 up with some kind of proposed minimum list of data
8 fields that we tried to describe this particular
9 product by asset class. Is it a feasible
10 approach? I shouldn't say feasible. Everything
11 is feasible. Is it a reasonable way to try to
12 capture these risk metrics that we were mentioning
13 and product classification metrics that we were
14 discussing?

15 MR. CUTINHO: For risk purposes, you
16 can't just look at that minimum set of
17 information. I think Adam was pointing out to
18 this panel many times that all the information in
19 the confirm is essential. That's important for
20 the analytics and it's important for risk as well.
21 I think Kulbir mentioned this before that it's a
22 great start to have a taxonomy and a structural

1 hierarchy. What is important is it has to be
2 extendable and then I think we're going back to
3 what is the original purpose. I think if the
4 purpose is if you want to find out if a certain
5 derivative is traded across execution venues and
6 you want to see at what price it's traded across
7 these venues, that has one level of requirements.
8 If you are looking at a counterparty and you want
9 to find their total risk exposure and then that is
10 exactly your interest, then we are questioning I
11 think to some extent how a product identifier
12 would help you get there.

13 MS. LEONOVA: Are we talking about
14 transactional level reporting versus portfolio
15 level reporting here? It's not a question of
16 particular data, it's a question of level of
17 aggregation of data on the reporting entity level?

18 MR. CUTINHO: Yes. In essence embedded
19 in my question is what is the purpose of the level
20 of aggregation? If you're trying to find out
21 there is a certain type of derivative that's
22 traded across execution venues, if your objective

1 is to find out the price ranges where does it
2 trade. What is the market? Where is it trading?
3 Then that has a certain set of aggregation or a
4 certain set of fields you would use. If you're
5 looking at a portfolio basis, if you're looking at
6 risk and if you're trying to identify risk, then
7 when you look at a counterparty I think it was
8 mentioned before that you have to look at the
9 underlying positions, you have to look at the
10 derivative positions, you have to look at their
11 exotic positions, so we don't understand what a
12 product identifier will help in that respect. You
13 don't need to look at the product identifier. You
14 look at the risk using the data within the
15 transactions that is at your disposal.

16 MS. LEONOVA: It sounds like in your
17 world our notion of product identifier is
18 something like futures equivalents type measures
19 of swaps that we are trying to aggregate for the
20 speculative position limit but it's absolutely
21 useless for the risk measure?

22 MR. LITKE: I think a futures equivalent

1 is a potentially useful risk measure. The problem
2 is it's a calculated field that is based on a
3 number of things that are different than the
4 description of the transaction. You have to make
5 some additional assumptions and know something
6 else about the market. It's useful, it's
7 sometimes necessary but it's almost never
8 sufficient.

9 MS. LEONOVA: I guess we have 15 minutes
10 for questions and answers. I see that the
11 audience is impatient with asking questions.

12 MR. TAYLOR: We couldn't get any
13 questions out of the audience before lunch.

14 MS. LEONOVA: Here is a microphone.
15 Would you mind?

16 MR. AXILROD: I just wanted to throw
17 something out and see what the panel thinks of it.

18 MR. TAYLOR: Please identify yourself
19 for the reporter.

20 MR. AXILROD: Peter Axilrod from DTCC.
21 In diving deeper into using these sorts of
22 identifiers for risk-management purposes or

1 risk-oversight purposes, I tend to share the
2 skepticism. It's a little like trying today to
3 manage monetary policy through the money supply.
4 Ten years ago or twenty years ago people thought
5 they knew what money was. Today it's very, very
6 hard to define so that it's not going to be a good
7 instrument. I think what you're hearing is that
8 product types, and one way to think of them is
9 sort of how ISDA master confirms are there? There
10 are a lot of them, and systems tend to divide up
11 the world that way. I don't know how many there
12 are in equity derivatives, there might be 50 or 60
13 now, credit derivatives have about 30 or 40,
14 commodities, they're not only ISDA, there are
15 elite product types and other product types and it
16 goes on and on. They're very useful. They're
17 used for as a sort of shorthand and when people
18 see them they know what type of instrument it is.
19 But I guess I would urge for risk purposes or
20 position limit purposes, you're going to have to
21 use a blunter instrument. You're going to have to
22 look at exposure to underlyings, what direction it

1 is and whether it's linear or not and add it up
2 and you're going to have to not be afraid of false
3 positives. You're going to have a lot of data in
4 front of you and if some of it indicates that
5 there is a problem and you ignore it because
6 you're worried that the data is incomplete, you're
7 going to be in trouble. What's wrong with having
8 sort of a rough approach which looks at underlying
9 exposures that is structured in such a way as to
10 give you some false positives but that just means
11 you've got a phone call or two to make?

12 MR. TAYLOR: Are there any reactions
13 from the panel?

14 MR. LITKE: I think it's fine if you're
15 trying to use it as a first step to look at risk.
16 I think the dealers and the market participants
17 might find it somewhat problematic if it were used
18 for hard position limits. So I think it really
19 depends on whether you're using it for a limit or
20 you're using it as an early warning signal.

21 MR. AXILROD: Early warning. I don't
22 know that hard position limits is something that

1 actually works given that it's almost impossible
2 to find a good measure of this so that it was
3 something that would be an early warning and cause
4 somebody to drop a dime.

5 MR. ARORA: I had the same concerns. If
6 it's going to start affecting workflow on a daily
7 basis, that would worry me. If it is more about
8 an indicative kind of sense to the regulators, I
9 suspect, Peter, there are going to be a lot of
10 follow-up phone calls in your example, sir.

11 MR. TAYLOR: Are there any other
12 questions from the audience? Clearly they know
13 everything they want to know. I have one. A lot
14 of you were here for all the panels this morning
15 and obviously I was and I listened all the way
16 through the discussion of unique counterparty
17 identifiers and there seems to be universal
18 agreement that we need them and everybody has a
19 fairly good idea of what at least they think they
20 ought to be and how they ought to work and the
21 debate is in the details. I listened to this
22 discussion and I'm not quite hearing it. How

1 important do you think it is that we have these
2 identifiers? Am I wrong? Is the appetite for a
3 UPI somehow less than for a UCI?

4 MR. ARORA: I think it's because of the
5 complexity involved and that's why my initial
6 point was what purpose might help. Maybe one way
7 to look at it would be to do a volume analysis and
8 I hasten to add that what we mean by volume needs
9 to be defined. And maybe if we take it one step
10 at a time, the more standardized products do make
11 up the highest volume debt, it may not address one
12 of your concerns about risk hiding somewhere in
13 the system, but at the very least that's where
14 something can be done. I think the worry that you
15 hear if I can speak for all is around where the
16 definitions are much more complex and much harder
17 to come a consensus on.

18 MR. TAYLOR: You all are asking in a
19 sense what for about these. One sort of obvious
20 answer that occurs to me, and I thought maybe I
21 should this because the existing universe of
22 repositories and if I'm not overstepping to say

1 so, I think more the European concept about
2 repositories, tends to be that there might be one
3 repository in an asset class and so in this one
4 place you can see all at least for that universe
5 and that's not the Dodd-Frank concept. It
6 contemplates multiple repositories. The market
7 may end up dictating otherwise, but at least for
8 some period of time one of the purposes I guess of
9 a product identifier would be able simply to see
10 of this thing, what all is out there across all of
11 these repositories. That's kind of simple and
12 basic.

13 MR. CHIDSEY: Again I think what you're
14 hearing is the need for a common taxonomy or
15 common topology, there seems to be universal
16 agreement there. Then again within that there may
17 be an opportunity for identifiers, but the idea of
18 having a comprehensive product identifier at this
19 point, until you solve the common topology or
20 taxonomy, the common product identifier is
21 probably something that would need to be
22 considered later.

1 MS. LEONOVA: So that you're talking
2 about an aggregate system of product description
3 and now it's quasi-agreed is FpML a legal
4 confirmation type but it may be a good way of
5 doing it or maybe not a very good way of doing it
6 but that's a change of direction that you think we
7 should follow?

8 MR. LITKE: For capturing the
9 information for risk purposes, yes. For answering
10 the simpler question of what's here and what's
11 there for volume studies, you could use a broader
12 solution. And for price reporting where you want
13 to see if there is market abuse, for the
14 standardized trades you're going to get all of
15 your information out of standardized names.

16 MR. TAYLOR: One follow-up question on
17 the comment that we need the taxonomy first which
18 I think makes sense to me, do you all think there
19 is a way to come together in some consensus on a
20 taxonomy on the timeline that the rule has which
21 in rough terms at least would mean doing it this
22 year?

1 MS. LEONOVA: I can narrow down a
2 question. Is it possible to agree on a limited
3 set of confirmations that are going to describe
4 the whole universe of products? You can say
5 maybe.

6 MR. ARORA: They're both tough questions
7 and I'll be optimistic because the number of
8 players in this marketplace is small and I think
9 that's a positive, but the complexity is not and I
10 think that's the negative. It's an aggressive
11 timetable.

12 MR. TAYLOR: If more time than that were
13 needed, what do you think it is? Rules can be
14 structured for things out there further, but too
15 much further won't sit well.

16 MS. DREW: I think the working groups
17 that are participating in the LEI conversation,
18 some of those folks have been in discussion on the
19 on the common product ID for the last 10 years and
20 nothing happened. Realistically I think looking
21 at what's going on in those working groups and
22 evaluating after a month or so after they have

1 some straw man or hear the finite set of fields we
2 need to get agreement on and then readjusting the
3 July date accordingly, but you have to sit down
4 and model and you have to sit down and not rush
5 this because if we rush it we'll have to do it
6 again. The working group that's in place right
7 now I think is very effective. All the right
8 players are at the table. My advice would be give
9 it a month, come back and then set an appropriate
10 time limit once the modeling is done.

11 MS. LEONOVA: Does anybody have good
12 news?

13 MR. TUPPER: It's a rule of thumb
14 typically is a product is standardized enough that
15 a clearinghouse is going to accept it, then
16 there's the first set. If you're looking for a
17 set of trades, cleared swaps, you're at a point
18 where all the data values are pretty standardized,
19 people agree, clearinghouses are clearing on it,
20 there's your first set. Once you leave that
21 product set, each tranch of products depending on
22 how complicated they and you've heard a lot about

1 the exotics, it's how hard you want to work. The
2 last 1 percent is 99-percent of the work. I agree
3 with Adam wholeheartedly on that. You could spend
4 a lot of time on the exotics which we have
5 discussed at length. But if you're looking to put
6 timelines, there is a lot of mention of reporting
7 cleared swaps and that would be a great first
8 start. And then maybe adding a concept into the
9 rules with the exotics, and then you're going to
10 have some products that are kind of in the middle.

11 I do think when you prescribe rules you
12 do need to provision whatever standardization body
13 is going to be tasked by asset class to do this
14 work. The industry will invent products quickly.
15 I think everybody here has probably been told I
16 have the greatest project. You need to list it on
17 your system. You do that because you're a
18 provider of central services. And then you have
19 this miscellaneous bucket and out of that bucket
20 some things do make it but a lot of them don't,
21 but you do need to allow that innovation in the
22 market because there will be times where you're

1 going to have to amend and list new products as
2 they come up and I'd hate to see the rules be so
3 prescriptive that it wouldn't allow windows for
4 these updates.

5 MS. LEONOVA: I guess it's time to call
6 it a day. We are done with this panel. Thank you
7 very much for making the trip to Washington, D.C.
8 and talking to us and we will see you in 15
9 minutes.

10 (Recess)

11 MR. TAYLOR: So would the people for
12 Panel 5 come up and take their seats, and bring
13 your name tag with you, if you have it. Are the
14 rest of the Panel 5 folks here? We're going to go
15 ahead with that, and then we'll take our break
16 after that. It makes the afternoon too long if we
17 do it now.

18 (Pause)

19 MR. TAYLOR: We're missing a couple of
20 folks. Let's see -- Arthur and Ola.

21 MR. MAGNUS: Arthur's here.

22 MR. TAYLOR: Oh. Oh, hello. Right

1 under my nose. We're missing Ola.

2 MS. LEONOVA: No, no. Ola is going --
3 Ola made a switch.

4 MR. TAYLOR: Okay.

5 MS. LEONOVA: Okay, sorry about that.

6 So now we are going into our next panel.

7 Hopefully it will be not as controversial as the
8 previous one. Now we are talking about Unique
9 Swap Identification, or Unique Transaction Type
10 Identification -- and to give a brief explanation
11 of why we use this terminology. We discovered
12 that industry has so many interpretations of what
13 a "transaction" or "deal" is, that we ended up
14 calling it just "swap." So there is no hidden
15 meaning here. The underlying notion of these
16 identifiers to keep track of a transaction, and we
17 understand that everybody does it one form or
18 another. When it comes to the unique ID for swaps
19 in our world, we understand that we're going to
20 have to deal with some system of compressions,
21 (inaudible) that is kind of dilute. So it's
22 unique.

1 So by this -- and it has to come up into
2 something else that brings a notion of what is the
3 most, again, efficient and effectiveness system of
4 tracking, and so it's individual transactions that
5 will accommodate regulatory needs and at the same
6 time will fit into the current systems of
7 counterparties. So, anyway, it has an (inaudible)
8 how it should be done, where it should start, and
9 how it should drip down into the SDR.

10 MR. TAYLOR: And --

11 MR. CUTIHO: Sorry.

12 MR. TAYLOR: Go ahead.

13 MR. CUTIHO: I beat you to it. Very
14 quickly, I think I'm trying to understand the
15 purpose or if -- just to rephrase -- you want to
16 track the transaction and its life-cycle. We do
17 have a concept today, when we receive swaps for
18 clearing. It's called a "Platform Identifier,"
19 because we don't have execution facilities yet.
20 We do think it will be helpful, but we think it
21 should be linked to the execution venue, and
22 should have some form of an intelligence to

1 prevent collisions.

2 If the purpose is just to track a
3 transaction and its life-cycle, one way to -- I
4 mean, it has to be unique, of course -- things to
5 keep in mind are not all transactions are executed
6 in execution venues. Some of them are
7 voice-confirmed, or affirmed, on platforms. So,
8 to the extent that these IDs are easily available,
9 they have a very transparent algorithm, I think it
10 will help -- and not just the clearinghouses, but
11 it will help the regulators, as well.

12 MS. LEONOVA: Okay, so to expand it --
13 so, in case of centralized execution we are more
14 or less confident that staff for the CM will be
15 able to assign some kind of number. When we are
16 talking about non-centrally-executed transaction,
17 it goes to clearance, we would assume the
18 clearinghouse going to assign the number when it's
19 not going to clearance, or who is going to assign
20 the number, or how will the flow be (inaudible).
21 What are we talking about here.

22 MR. MAGNUS: So, if I may -- I'm Arthur

1 Magnus from JP Morgan -- I still think -- first, I
2 do think there's a big difference between cleared
3 and non-cleared, but even in the cleared
4 environment, I think we need to be very -- pardon
5 the pun -- clear on what we mean by "transaction."

6 Let me talk about the uncleared, and
7 then I'll come back to the cleared one in a
8 second. When we put on a position with a
9 counterparty -- I'm just going to make an example.
10 I do a trade with you, Irina, and it's \$100
11 million transaction. I've now done it, it's an
12 event, a new transaction.

13 At some later date, something may happen
14 to that. It may move to a clearinghouse. Now, it
15 moves to a clearinghouse -- and we'll say David's
16 the clearinghouse -- is that a new transaction?
17 Or is it the same transaction? But now the
18 clearinghouse is sitting in the middle.

19 Now, if your expectation is -- and I saw
20 David shaking his head, "No, it's not a new
21 transaction" -- it does need a new identifier,
22 though. Because my transaction with David, and

1 Irina's transaction with David are gone, and we've
2 created a new transaction. And it has to be that
3 way, because I can't report, in any way, shape or
4 form, on my transaction with Irina any more,
5 because I don't have the relationship with her.
6 So we have a new transaction ID of some sort.

7 A different scenario is I have \$100
8 million transaction with you that's bilateral, it
9 stays bilateral. And then at some point I want to
10 lower the risk to \$75 million. I can do that two
11 ways. In some markets, I would do an offsetting
12 transaction -- a \$25 million trade with you in the
13 other direction -- and we'd have two transactions
14 on the books. I have a \$75 million position, but
15 two transactions. In other markets, I might do a
16 partial unwind -- unwind \$25 million of that,
17 which is an event on the same transaction.

18 What I'm trying to get to here is to say
19 that we have to be very, very clear, and sit down
20 and figure out what are the different U cases
21 we're trying to solve for, so we can figure out
22 what we are identifying, and which identifiers

1 need to live throughout their life, and which
2 don't.

3 We clearly have a view at JP Morgan that
4 if you're doing a compression, we in effect are
5 unwinding all the trades that are being compressed
6 and replacing them with a smaller number of new
7 trades -- which is fine, and the compression
8 utility can actually provide those new identifies,
9 but not clear if that's actually what the CFTC is
10 looking for, in terms of what they're trying to
11 find traceability of.

12 In the cleared environment, we're not
13 sure the concept of "transaction" is meaningful
14 over a period of time. Because, again, there's
15 reporting requirements to the swap data
16 repositories of a transactional nature throughout
17 the entire -- quote -- "life of the transaction."

18 Now, while many markets, we believe,
19 that will never lend themselves to a standardized
20 product -- and each individual transaction, which
21 is perfectly clearable because we can think about
22 the risks holistically are usable -- we are going

1 to be able to, in other products, or instruments,
2 be able to identify them singularly by a contract.

3 So if you think of the CDS Index market,
4 that's a pretty standardized contract. We could
5 compress that to a position, very similar to the
6 way futures work today. And we would not want to
7 have to continue to carry around, every day,
8 information about the events associated with that
9 transaction. We'd want to associate it with the
10 position. In other markets, where we can't get
11 that level of standardization, we're going to have
12 to do it at a transaction level.

13 So I just think one of the things we
14 need to do here, very practically, is get, again,
15 the market practitioners together, who understand
16 the different markets, outline what the different
17 use cases are, and then come up with what is it
18 you're trying to identify. Are you trying to
19 identify for, again, trace-type purposes, to
20 understand the transactional life-cycle over its
21 life to look for market manipulation or things
22 like that? Are you trying to understand what is

1 the systemic risks presented by the trades that
2 are on the books at a moment in time? Are you
3 trying to do both? Are there other things you're
4 trying to accomplish with understanding what all
5 these things are.

6 And once we understand that, we can
7 probably come up with a nomenclature, an
8 identification that would work for this. And if
9 you have the answers to some of those questions,
10 we might be able to help you now.

11 MS. LEONOVA: Okay, then let's start
12 from the simple solution. If you are focusing on
13 how to trail a particular trade from the moment of
14 execution until the moment of time in the future,
15 do you follow the swap transaction idea that is
16 mutating through the life-cycle events? Or we try
17 to track the original swap transaction?

18 MR. AXILROD: Can I take a shot at that
19 one? We've been doing that for a while. As
20 Arthur said, in some cases it's virtually
21 impossible. No one wants to take a bunch of
22 trades that have been compressed -- there are lot

1 of one-to-many, and many-into-one clearing
2 give-ups, prime-brokerage give-ups -- you know,
3 block executions with splits.

4 If you want -- if the requirement is
5 just to keep an audit history, then, really, as
6 long as the system that's doing that can relate
7 the new trades to the old trade -- so, for
8 instance we know which terminations are
9 compressions. We know when the compressions were
10 done, because we get them from a compression
11 provider. And we're getting to the point where we
12 know which new trades also came as a result of
13 that compression. Those are reported by the firm,
14 so it's not quite so clear at the moment. But
15 it's getting there.

16 Or do you report us new trades? No,
17 just the terminations. Yes. But as long as you
18 have that information, and you know what the links
19 are -- and particularly, know that these new
20 trades that were coming on were as a result of a
21 compression rather than some economic activity --
22 isn't that enough? You know, and as long as

1 there's the link somewhere -- these 10 trades link
2 back to these two, or these two link back to these
3 10 through a compression -- wouldn't that be
4 enough?

5 MR. PRITCHARD: I can say a few words
6 here. This is Raf Pritchard from TriOptima. I
7 think, you know, talking generally about these
8 universal IDs, there's no controversy about the
9 value or the justification or the motivation of
10 what is being described here. And the rule-making
11 goes into some lengths about the value of
12 aggregating across different entities, across
13 different transactions, and forcing limits,
14 surveillance, et cetera. So I don't think there
15 will be any controversy in these discussions about
16 the value or the motivation of what is being
17 described.

18 And also, in technical terms -- we've
19 seen at the prior panels today -- there's no real
20 controversy about the ability to create universal
21 unique IDs. We start off with venues that
22 generate these IDs, and we can combine those with,

1 you know, prefixes or suffixes for those venues,
2 and we can come to a universal scheme of unique
3 IDs. So that's not controversial, I think.

4 You know, what Peter and Arthur are
5 alluding to is the practicality and the
6 feasibility. I think Arthur made an excellent
7 point that, you know, what having these universal
8 swap identifiers implies is a certain uniformity
9 of behavior in the market that where a certain
10 scenarios arises -- and he very clearly enumerated
11 several good examples -- that everybody's going to
12 behave the same way. And that doesn't happen at
13 the moment. Participants in the OTC market do, by
14 and large, perform on their contracts, but they
15 don't necessarily record them in the same way.

16 And so somehow we're going to have to
17 come up with a rule book -- as Arthur said, a
18 prescription -- of what each scenario is, and how
19 to behave, in terms of do we create a new trade do
20 we retire an old trade and create a new one, like
21 Peter is talking about? Or do we create two? Or
22 what exactly happens?

1 And somebody has to write that rule book
2 and maintain that rule book so that everybody can
3 follow it. And that is where, I think, the
4 controversy around this is going to come in.

5 And secondly, an issue is that, you
6 know, there's a lot of infrastructure. Somebody
7 earlier was talking about these identifiers are
8 embedded in thousands of systems around the
9 industry. And they are. And often, those party
10 systems create records, you know, very early on,
11 when the trade is agreed to. And so we'd have to
12 feed back these unique trade identifiers into
13 those systems. And that's a significant amount of
14 rework. You know, when you design a software
15 solution -- and that's what our business is,
16 software solutions -- you design the data model
17 first. And when you design the data model, you
18 design the identifiers and keys first. And if you
19 try to change the keys to the data models of
20 thousands of systems, then that's, you know,
21 digging up every street and avenue in the city to
22 -- you know, nobody's arguing about the benefit

1 here. But it's really the amount of re-work
2 involved in universally applying them.

3 And so I think some of the solutions
4 Peter is talking about, about using what's there
5 at the moment and, you know, linking backwards and
6 forwards to identifiers, and using some of the,
7 you know, identification systems that are out
8 there and linking across them is going to give a
9 much more faster delivery of this benefit.

10 MR. TAYLOR: Does it help with that
11 particular issue -- you know, the re-working of
12 systems -- if the use of these USIs applies to new
13 swaps going forward after the implementation date,
14 but doesn't apply, in the same way, at least, to
15 what are going to get called "pre-enactment
16 swaps," or "transition swaps," the one between
17 July last year and the implementation date?

18 MR. PRITCHARD: I think that's -- just
19 quickly, it's going -- OTC swaps, one of the
20 things we've pointed out in our discussions here
21 is the rate of turnover in the market. We see 3.9
22 million live contracts in our rates repository,

1 but only 4,000 or 5,000 a day. And it's going to
2 take years and decades for that approach to get to
3 a place where everybody's got these unique swap
4 identifiers.

5 MR. TAYLOR: Okay.

6 MR. PRITCHARD: So this approach of
7 reusing and linking amongst the identifiers that
8 are there will deliver value. It may be a good
9 thing to do in the long term, but it's going to be
10 a long wait.

11 MR. MAGNUS: I would also just add to
12 that that the systems that, you know, the major
13 swap dealers use today, and other market
14 participants use today, whether you start using
15 these new identifiers on a particular date in the
16 future or say it applies retroactively is almost
17 immaterial. Because I have to make the changes to
18 the system in order to capture and record those
19 identifiers, and be able to pass them in every
20 single message that we have, among systems, in
21 order to fulfill the requirements that you're
22 trying to accomplish.

1 So once I can do that, we can probably
2 very quickly come up with a way, in a relatively
3 short amount of time -- it might take a year or
4 two, but relatively short compared to the term of
5 our derivatives book -- be able to go and get to
6 identifiers that are for the uncleared derivative
7 population.

8 MR. AXILROD: I guess I think you can't
9 solve this problem by trying to map to lots of
10 various different identifiers just because you
11 then have no way of enforcing -- I lose my grip on
12 how you do inventory control. In other words,
13 unique identifiers, especially under a system
14 where, you know, something's getting reported one
15 place for public dissemination, and another place
16 for regulatory reporting, you can have those out
17 of sync very quickly, and no check on whether
18 you're capturing everything, unless there are
19 unique identifiers.

20 I do think the technological problem,
21 though, is -- Raf is right, everybody -- these
22 identifiers are essentially the key to everybody's

1 system. And maybe just adding two digits requires
2 a rewrite of every single table in somebody's
3 system.

4 So I think if they are being created
5 from multiple sources -- say, for instance, the
6 execution venues -- they ought to be standardized
7 -- in other words, so that the people to whom
8 these things are reported can deal with them.

9 And, in a way, I would say that the SDRs, if they
10 don't create them, at least should say, "Here's
11 the format in which these identifiers have to be
12 provided." And maybe if there's a prefix for
13 other, for different execution venues, you know,
14 for sure that prefix should not be made public, or
15 the individual identifier should not be made
16 public, because there's just not enough trading to
17 -- if people know which platform it came from,
18 they'll know who did it.

19 So, as long as these identifiers are
20 private, or only for the regulators, that's okay.
21 But you really have to make sure that the SDRs can
22 handle all of this stuff once they're reported to

1 them.

2 MR. WILLIAMS: If I might -- Jon
3 Williams from Tradeweb. And, by the way, thank
4 you very much for the opportunity to participate.

5 You know, I think one of the things, you
6 know, as we look at our execution business
7 currently, across a number of different asset
8 classes, both cash and derivatives, you know, we
9 feel very strongly that from a unique swap, or a
10 unique transaction ID standpoint, there does need
11 to be kind of a point of initiation. And that
12 point of initiation is the point of execution.

13 Because I would think that, you know,
14 contained within the notion of a transactional
15 identifier is the concept of -- not to borrow from
16 earlier panels -- but the counterparties involved
17 in the transaction. And so the notion of trying
18 to report enough of the details that encompass the
19 physical transaction -- not just the details, the
20 mechanics of the swap -- to do that at the point
21 of the SDR, when actually the uniting of the
22 counterparties and the components of the swap

1 happens at the point of execution, would be
2 problematic from kind of a sequencing perspective.

3 One of the things that, you know, that
4 we certainly do now -- again because, you know, we
5 traffic across a number of different asset
6 classes, with a large number of counterparties,
7 and interact with a lot of, you know, other
8 participants in the trade, like TTCC, like
9 MarkitSERV -- is we certainly create a new
10 transaction identifier. And it varies. There's a
11 fair amount of, you know, homogeneity, in terms of
12 the logic behind the construction of the
13 identifiers, but each asset class has an
14 appropriate number of characteristics that
15 describe it. We then transmit those identifiers
16 -- for example, to TTCC, and they respond in kind
17 with whatever identifier they have created for
18 that particular transaction, and we associate the
19 two together, and are able to track them in
20 lockstep with each other throughout the life-cycle
21 of the trade.

22 You know, I guess one of the other

1 things, you know, from listening to some of the
2 other panels is, I think, the key is going to be,
3 obviously, a very -- and this is where there's
4 going to be a fairly, a need for a fairly
5 broad-based amount of cooperation across market
6 participants -- is a very kind of agreed upon, as
7 close to standardized as possible, methodology or
8 taxonomy for describing not just, you know, the
9 larger transaction but the pieces of the
10 transaction -- again, those unique counterparty
11 identifiers, and then ultimately those unique
12 product identifiers.

13 MR. CUTIHO: I just want to acknowledge,
14 and actually highlight one of Arthur's points
15 before.

16 It doesn't matter whether we're talking
17 about seasoned swaps, or things that are
18 bilateral, or swaps going forward. But if a
19 product is standardized, and if clearing is
20 provided on a positional basis, then there is no
21 ability for a clearinghouse to then report the
22 transaction identifier on an ongoing basis. So it

1 means nothing. It's just a net position at that
2 point in time.

3 CDS as a SNAK is a good example.

4 MR. MAGNUS: Then again, I do want to
5 caution that many asset classes you will not be
6 able to do that. And so we just have to be very,
7 very careful when we use that terminology.

8 Again, I want to go back and -- there
9 are one or two other attributes I think are very
10 important. One is, if we have identifiers out
11 there, the identifiers itself should adhere to the
12 general policies of good data management, which is
13 they should not mean anything. There should be no
14 meaning ascribed to the digits, characters, that
15 make up that alphanumeric or numeric or character
16 string -- in terms of who the parties were, where
17 it was executed or anything else. Those are
18 attributes of the transaction, and they should go
19 somewhere else.

20 And I think maybe it might make sense
21 just to think about the whole work flow. In
22 addition to the use cases, one of the concerns

1 that we certainly have, as we look at all of the
2 NPRs, not just the data one, is how the
3 information is going to flow between the various
4 parties in the system, and how it's all going to
5 fit together.

6 And a transaction ID is an interesting
7 one, because that's something that's going to have
8 to cut across, and isn't as well defined as the
9 earlier discussion this morning, on counterparty
10 or legal entity identifier, which is a little bit
11 clearer, because they do have contracts for those.

12 And so I think we do need -- you know,
13 again, and I'm going to use -- I think the way to
14 move this forward, again, is to get a very small
15 group of people in a room to define the problem
16 we're trying to solve. Because there is a
17 difference between a transaction, and I'll call it
18 a "deal" on my books. And this is a problem -- I
19 started in derivatives back when we were
20 converting all of our -- Morgan was converting all
21 of its parallel loans into swaps under an ISDA
22 Master Agreement. And I remember having

1 discussions, whiteboard discussions, in the room
2 about the difference between a transaction and an
3 instrument.

4 And the reason I bring this up, because
5 when we do, in the OTC market, an instrument
6 effectively is a unique instrument -- well, say, I
7 do a trade with Bruce, where Bruce and I have done
8 a trade together, that instrument only exists for
9 the two of us. And no one else needs to know
10 about it in today's market, that we've done that
11 particular instrument. So any transactions on
12 that instrument are really between us, and we use
13 our own nomenclature.

14 We're now moving into a market where we
15 have to share that with other people. And we have
16 to think about the difference between what is my
17 position in that instrument at the end of the day,
18 that might only exist between two parties, and the
19 event and the way that might change through some
20 transaction that might occur which is a one-time
21 event.

22 And the way you talk about the SDR and

1 the continuation data, we talk about what is the
2 mark-to-market of a transaction over its life?
3 But a transaction only exists at a point in time.
4 The position I have, or that instrument, the
5 position in that instrument, occurs for the life.

6 And that's where this data modeling
7 exercise becomes really complicated. But if you
8 break it down into its parts, we might be able to
9 come up with a nomenclature that actually will
10 allow us to get to a solution.

11 MR. TUPPER: Thanks, Arthur. This is
12 Bruce Tupper with ICE. I'm actually -- just to
13 kind of summarize, I'm really glad you got all
14 this feedback.

15 Because when I read this section I had a
16 lot of concerns, because operating a repository
17 for intercontinental exchange, I quickly got a
18 call from the clearinghouse. And they said to me,
19 "Oh, my God. We just roll up the open interest.
20 And I'm not really interested in an ID, nor do I
21 have the systems to do that."

22 And then to Arthur's point, you got a

1 great view into how one, you know, one large
2 dealer handles trades, although -- that's not to
3 say it's right or wrong -- other dealers may just
4 amend a trade, and keep the life -- the trade
5 open. And as a central provider of services, we,
6 in our system, we're required to architect a
7 system that could do both.

8 And then, you know, Peter also said
9 that, you know, you're going to be generating a
10 lot of IDs, and then this is going to be very
11 burdensome on the SDR, because we're going to be
12 ultimately the one where all this stuff's coming
13 into, and I need to tie out everyone's trade ID --
14 which is a lot of columns. Because every time
15 someone gives you another ID, you're trying your
16 best to manage your tables, and link back all the
17 IDs.

18 And from the suss perspective, I think
19 the old -- they could easily generate unique IDs,
20 but once they report, they're really -- they're
21 not really involved in what life-cycle processing,
22 or what's going to happen post-trade. So, you

1 know, this is not to -- because we also, our
2 exchange guys are doing this and they're like,
3 "Yeah, great. I can issue an ID." And I'm like,
4 "Yeah, that's great. You're just -- you're around
5 for one night, then you're gone -- " and we're
6 going to be living with these trades for possibly
7 years.

8 So I think, going back to what Arthur's
9 saying, I think it would helpful to know what
10 you're trying to do with this ID. I think you're
11 going to run into difficulties trying to get every
12 potential, just call them "market participant" to
13 be able to manage them, because not all of them do
14 it.

15 I can't tell you that the SDRs probably
16 are best suited to do it. Because when we deal
17 with -- I'll speak to it from our perspective,
18 when we deal with it, we get unique IDs from each
19 person, and we show that to them, where we process
20 it. But to us, we always put our own behind it.
21 So that's fairly easy for me to do that in one
22 single system. And if I had to handle maybe a few

1 other, or foreign entities, it would be some work,
2 but it's doable.

3 Once you start stepping out of that
4 central processor, and if you quickly get to a
5 clearinghouse, or you go back to other customers
6 -- if you get out of the world of the swap
7 dealers, the idea of adding other columns to their
8 database, and tracking other IDs is going to
9 become very difficult. You know, they're going to
10 have to go back to their vendor, the vendor is
11 going to give them a quote in order to do this,
12 because they don't do it today. Whereas a firm
13 like JP Morgan will just add the column.

14 So I think we need to kind of figure you
15 -- and I'm echoing Arthur -- is that what would
16 you like to do with the ID? And it's not so much
17 the creation ID, but it's the ability to keep that
18 ID appended to the trade correctly, and move
19 throughout all the different reporting entities.

20 MR. AXILROD: I guess I don't know that
21 it's really that hard. As long as your
22 standardizing the number of digits, and it's not

1 too big, and everybody knows and can deal with it
2 -- I know that, you know, the smallest municipal
3 utility may not be able to do that. So I think
4 commodities is sort of a little bit different when
5 you get to -- you know, there's a lot of end-user
6 to end-user trades in commodities. And the
7 technological abilities of municipal utilities and
8 other small players may not be there. So I think
9 you need to sort of consider that somewhat
10 separately.

11 But for the large financial derivatives,
12 most people who have to report are technologically
13 sophisticated enough. Almost everybody has their
14 own trade identifiers. And I think, you know,
15 giving up trades for clearing is just another
16 instance of many-to-one, or one-to-many. There
17 is a contractual relationship between the
18 clearinghouse and the counterparty.

19 I think as long as you can solve that
20 many-into-one or one-into-many audit trail, it's
21 not -- actually, we don't necessarily do it the
22 greatest today. We can do it, but it's a little

1 bit convoluted. As long as you can do that, I
2 think you will have your universal identifier.

3 Maybe I'm missing something.

4 MR. MAGNUS: Peter, I just think about
5 applying that in the uncleared market. Because I
6 think when you get to clearing, and you have that
7 central counterpart and you can apply an ID to it,
8 it's one thing. But there are going to be deals
9 that are going to end up being bespoke, and will
10 be bilateral. And the Dodd-Frank Act, and all the
11 draft rules I've seen cater for that.

12 And so we need to make sure that
13 whatever identification system we come up with
14 also caters for that.

15 MR. AXILROD: No, I agree. I just
16 didn't think it was that difficult for people that
17 are used to technology. It's going to be very
18 difficult for people who are not. And you just --
19 I do think that if you -- I mean, what we do is we
20 map firms' IDs to our IDs because, you know, if
21 you make everybody who's a market participant redo
22 all their systems, it's going to be difficult.

1 But as long as the SDR is sure that they
2 can track things with a unique identifier, I don't
3 know that the people communicating with the SDR
4 need to use that identifier. They could use their
5 own if the SDR has linked it to a unique
6 identifier.

7 MR. MAGNUS: And that probably is the
8 practical solution for implementing something
9 sooner, is to make that a requirement of the SDRs,
10 to provide that -- potentially provide that
11 capability.

12 MR. PRITCHARD: Yeah, I think Arthur and
13 Peter have got it just right there. For the
14 non-cleared example that we spoke about, as long
15 as parties report their trade to the same SDR --
16 which I think is foreseen in the rule-making --
17 and they use a consistent internal ID, which is
18 unique from their point of view, consistently over
19 that reporting, then the SDR itself can be
20 responsible for prefixing with it's own bit to
21 provide the universal unique feature when
22 reporting upwards to the Commission.

1 MR. MAGNUS: As long as we still get
2 standardized market practice. Because the example
3 I gave before, of that \$100 million deal going to
4 \$75 million, in certain asset classes it's done
5 one way, in other asset classes it's done another
6 way, and we have to decide if we -- or certain
7 firms will do it one way or another way. And we
8 have to decide if we need to standardize that.

9 MR. AXILROD: It's not only across asset
10 classes, actually. Within each asset class JP
11 Morgan does it one way, and Morgan Stanley does it
12 another way. And it gets -- (laughs).

13 MR. PRITCHARD: And I would think that
14 you'll get pretty much the same value with a lot
15 less expense if you let the SDR translate it, and
16 don't impose standardization on every last end-
17 user.

18 MS. LEONOVA: Okay. Then if, say, ID is
19 generated on the SDR level, it has to drip down
20 back to the original execution clearing and
21 everything else.

22 Is it feasible from --

1 MR. MAGNUS: Right.

2 MS. LEONOVA: So how do you envision
3 audit trail of individual books if you cannot
4 track the SDR trail to, say, documentation of a
5 particular counterparty in their books?

6 MR. AXILROD: That's part -- I mean,
7 there's a little bit of latency, but it's part of
8 the Act -- Act. In other words, when we get it --
9 I mean, Jonathan described it. When we get a
10 trade in, when we send that trade back, if -- or
11 if we get a confirmed trade in, when we send it
12 back it has our identifier on it. We don't apply
13 identifiers to information with unconfirmed
14 trades, because you have this double-counting
15 issue. You potentially get two legs of the same
16 trade in with different identifiers, and then you
17 have to make one go away once it gets confirmed.
18 You can do that, but it's a technological -- more
19 of a technological hurdle.

20 MS. LEONOVA: So you are talking about a
21 system of mapping of identifiers?

22 MR. AXILROD: Of?

1 MS. LEONOVA: Mapping.

2 MR. AXILROD: Well -- that's correct.

3 In other words, when you have a central identifier
4 you can map it to the firm's identifiers. But
5 once trades are confirmed, they go out -- unique
6 identifier generation can be done pretty quickly,
7 and then your acknowledgment back, you can have
8 your own identifier attached to it. So firm's can
9 use it or not, as they see fit. Most firms don't
10 use it. Most firms use their own identifiers and
11 it works fine.

12 MR. CUTIHO: As a technologist, I think
13 it's not very efficient to have a central system
14 just issue IDs, and every system in the chain,
15 just go and contact it every time. I don't
16 believe that will work very well.

17 I think if the goal is to have an
18 identifier at different points in time and
19 recognize them as events for a life-cycle, you
20 could have multiple identifiers and perhaps the
21 SDR manages the complexity of tying the different
22 identifiers together to give you an audit trail.

1 But I don't think polling a system to
2 get an ID every time is a very efficient approach.

3 MR. TAYLOR: Let me summarize a bit, and
4 get feedback from you all am I summarizing
5 correctly.

6 What we've got in the proposed rule is
7 not a system where there's a central giver of all
8 the swap identifiers. We called it a "first
9 touch" approach. The way we've got it is, if
10 there's a platform involved here, a (inaudible) or
11 a DCM, they create the swap identifier.

12 No platform, but you've got a dealer or
13 an MSP who presumably has sophisticated systems,
14 and is going to be the reporting counterpart, the
15 way the statute is set up, they create the
16 identifier. And if it's end-users on both sides,
17 where there may not be systems, the SDR creates
18 the identifier.

19 I think I hear you all saying you like
20 that, as opposed to -- you know, in terms of who's
21 creating it. Am I right or wrong about that?

22 MR. MAGNUS: As long as there's no

1 intelligence in the identifier. And by
2 definition, if a SEF or swap dealer is issuing
3 identifiers, there has to be some controlling
4 mechanism to either give it a block of identifiers
5 they can use or whatever. And that immediately
6 means that it has some intelligence in it, and
7 someone can reverse-engineer based on the
8 identifier.

9 MR. TAYLOR: The only intelligence, if
10 -- I don't know whether you should call this
11 "intelligence" or not. But if there is any built
12 in the way we wrote it in the proposed rule, the
13 proposed rule is saying that each of these
14 "creators" of an identifier would get a small code
15 that just identifies them. And that would be
16 either the beginning to the end of the identifier
17 itself. I mean, to be honest, we modeled that on
18 Tag 50 distribution from CME where, you know, each
19 clearing member can give Tag 50s, and once piece
20 of the identifier says which clearing member. And
21 that keeps them all unique.

22 I don't know whether you call that

1 "intelligence" or not. But is that problematic?

2 MR. MAGNUS: Well, it certainly
3 identifies parties to the transaction --
4 potentially. So we have JP Morgan does a private
5 transaction with somebody, and our little tag at
6 the beginning, and everyone knows we have the
7 number "5." If there's a "5" at the beginning of
8 the transaction identifier, they know it came from
9 JP Morgan, they know that JP Morgan did the deal.

10 So I guess part of it would be what is
11 the -- how will that data be used, and what is the
12 publication of that data?

13 If I assign that deal to somebody else,
14 does it keep that same unique identifier, or "deal
15 identifier" I'm going to use, instead of
16 "transaction" -- or is the very nature of the fact
17 that I'm now not in that, and now someone else is,
18 is the transaction, and the actual instrument, you
19 know, has a unique identifier?

20 Again, this goes back to the modeling
21 issue that I said before, and we just have to be
22 careful.

1 If only the SDR and the supervisors get
2 to see that, probably less of a problem -- but not
3 clear how the supervisors are all going to share
4 this information, how widely spread it will end up
5 being.

6 MR. AXILROD: Two things. One is, if
7 you accept that as true, then the SDR has to
8 create the identifier. You have to have -- if
9 there's more than one SDR for a particular product
10 type, you have to have some way of assuring that
11 each SDR is producing unique identifiers.

12 And I guess I would say, generally, the
13 program by which you use the reporting parties' --
14 remember, the -- right, the initial, in some ways
15 -- right -- the initial trade, if it comes from a
16 platform, that identifier is going to become
17 irrelevant later, because it's really the dealer
18 with the continuing reporting obligations.

19 I don't think it will work at all just
20 to use the dealer identifiers. And the reason is,
21 what we found is the dealers like to change them.
22 And for various good reasons. There's a merger,

1 there's something on. They're changing their
2 internal systems, they're changing their
3 identifiers. There's lots of reasons why dealers
4 might want to change their identifiers. And we've
5 actually had to put in a program that allows
6 dealers to go in at will and change their
7 identifiers. And the way we manage that is we
8 have our own identifiers, so that's what keeps the
9 audit trail.

10 So I don't really think you can get away
11 from the repository maintaining their own
12 identifiers at some level.

13 MR. TAYLOR: So, if I'm understanding
14 right, if you were redesigning this you would say,
15 yes, if it's executed on a platform, the platform
16 should create the identifier at the beginning.
17 But if it's not, forget the dealers, the SDR
18 should create the identifiers or all of the
19 non-platform executed.

20 MR. AXILROD: I don't know that it
21 really matters who creates it. I honestly don't
22 think it does -- as long as the SDR can manage a

1 single identifier all the way through. In that
2 case, I would suggest it's probably easiest for
3 the SDR to create it, because it's its systems
4 that have to maintain this over their life. And,
5 frankly, we could work with a lot of providers and
6 say, "Here's how you have to give it to us," but
7 it's easier and safer if we create them ourselves.

8 MR. TAYLOR: And then the other thing I
9 thought I heard some consensus on was you all
10 don't think the swap identifier is useful after a
11 swap is cleared.

12 Am I right about that?

13 MR. CUTIHO: For a position-based
14 clearing -- yes. After that point, it's just a
15 position, and that position.

16 MR. AXILROD: I guess I --

17 MR. CUTIHO: Net long, net short. For
18 trade-based clearing, we keep the trade open. But
19 there are terminations. Once they're terminated,
20 the IDs go away -- I mean, the swaps go away. A
21 clearinghouse doesn't maintain trades.

22 MR. AXILROD: I guess I'm not sure I

1 agree with that. You have to -- when a trade is
2 executed, you want to know whether it went to
3 clearing or not. So you have to still -- you
4 know, unless we get to the point, and I hope we
5 do, that, you know, there's automatic clearing at
6 point-of-trade.

7 But under most models -- not all --
8 that's not the case yet. And you're going to have
9 to say, "This trade went to clearing here."

10 So what you really want is, you know,
11 you have a cleared position that has an
12 identifier. It goes up and down, but you really
13 want to be able to say, "This trade went to
14 clearing," and be able to sort of document that,
15 and "This trade didn't."

16 MR. MAGNUS: But that actually
17 reinforces, I think, exactly what Sunil said, and
18 what I was saying earlier -- is that "transaction"
19 is an event, and a "position" is a position. And
20 in certain cases where you have position-based
21 cleared instruments, you will not care about the
22 transaction once it moves to cleared.

1 And you basically said, "I have the
2 transaction. It gets me to cleared. But once
3 it's cleared, I don't want to do continuation
4 reporting -- which is the other piece of this
5 NPR -- on a transactional level. I want -- the
6 clearinghouse will want to only report on the
7 position that, let's say, JP Morgan has, or its
8 clients have, in, you know, in ID-6, settling in
9 December, you know, 2016.

10 MR. AXILROD: Arthur, I think we're
11 violently agreeing.

12 MR. MAGNUS: Yes, we are violently
13 agreeing.

14 MR. AXILROD: I think there's, at that
15 point there's no difference --

16 MR. MAGNUS: Right.

17 MR. AXILROD: -- between the contract
18 and the position.

19 MR. MAGNUS: Right. But --

20 MR. AXILROD: They're the same thing.
21 You don't have the independent trade anymore.

22 MR. MAGNUS: -- but for those things

1 that are maintained on a trade basis, that you
2 can't get to a position, you're going to have to
3 maintain some semblance of what that individual
4 unique deal is for its life.

5 MR. AXILROD: All I was saying is, for
6 us it's the same thing. It looks -- a position or
7 a trade looks exactly the same to us. It's just a
8 contract between two parties.

9 MR. CUTIHO: And another nuance I would
10 like to add, post-clearing, is that there is a --
11 I think Arthur pointed to this before -- there is
12 a swap identified at the point where it's affirmed
13 or executed, but once cleared, it's broken into
14 two. And we're both -- you know, with the CCP
15 being the counterparty on both ends.

16 At that point in time, on an ongoing
17 basis, you know, it would make more sense for us
18 to report on a cleared identifier of that
19 position, even if it is trade-based clearing,
20 rather than, you know, the original execution.
21 Because we have broken the connection between the
22 two counterparties.

1 MR. TAYLOR: If a regulator is wanting
2 to follow this "thing" over its life, and this
3 thing gets cleared -- this may be another dumb
4 question. But suppose we have a swap identifier
5 that doesn't live very long. You know, you're
6 following the life of this swap identifier for,
7 you know, two hours or something, and then it
8 says, "This went to clearing." Thereafter, in
9 what you just said, is your ID would get replaced
10 by a cleared-trade identifier, or whatever we call
11 it. Is that a useful -- how would that work?

12 MR. CUTIHO: It's based on the purpose.
13 So if your purpose is to track the life-cycle post
14 clearing, then you want to know the cleared
15 identifier. Because at that point in time, the
16 CCP is the counterparty, not the (inaudible).

17 MR. TAYLOR: I think that would be the
18 purpose.

19 MR. AXILROD: That's what happens today,
20 both in clearing and in prime brokerage, where
21 it's exactly the same process, where you have a
22 lot of prime brokers net and compress with their

1 counterparties. That's what happens.

2 When the CCP, or a prime broker, steps
3 in the middle and becomes a counterparty to the
4 trade, we get fed the identifier of the person who
5 stepped in the middle. Sometimes we can attach
6 that to a particular transaction as an assignment,
7 and sometimes we can't because it's a many-to-one,
8 so we just keep a record that that's what
9 happened.

10 But if we know what the cleared
11 positions are, and we have the clearer's
12 identifier, it's just the same as a counterparty
13 giving us an identifier. We just want to make
14 sure that we've kept them all separate, and we've
15 got the appropriate inventory.

16 MR. MAGNUS: Again, if I do a
17 transaction with Bruce, the moment I move it to
18 clearing, I no longer have a relationship with
19 Bruce. That transaction does not exist. So
20 there's no way you can -- or that deal does not
21 exist in my records anymore. I now have a deal
22 with -- I'll use Sunil -- with Sunil as the

1 clearer, in that particular example. And Bruce
2 has a position with Sunil.

3 Now, I may do another trade with
4 somebody else that flattens my position out, so I
5 actually have no position anymore. I'm not going
6 to track anything, because those two positions are
7 equal and offsetting and I'm done. I've assigned
8 it, or whatever. Bruce may go add on to his
9 position.

10 And this is not terribly dissimilar to
11 what you're doing in the futures market today,
12 where an FCM in the futures market is required to
13 keep the transactions that led to the end-of-day
14 position. But once you get to the end of the day,
15 and everyone's confirmed and agreed the end-of-day
16 position, they basically stick those in an archive
17 somewhere, and will make it available if you ask
18 them for it. But they don't report it anywhere.

19 And that's not a terribly dissimilar
20 concept. And, again, it goes back to what are we
21 trying to trace? What is it that you want to
22 trace -- quote -- "through its life-cycle?" Do

1 you want to understand what JP Morgan's position
2 is over time and how we got there? Or are you
3 trying to understand, literally, an individual
4 transaction, and keep it alive much longer than it
5 really is alive, for some purpose that, quite
6 frankly, I'm not sure about?

7 MR. TUPPER: Yeah, and just, if I may --
8 if the SDR is providing the reporting function --
9 the SDR is mandated to provide reporting
10 functionality to the Commission -- right? So if
11 we're able to provide you that rolled-up reporting
12 functionality each day, that gives you the net
13 positions, I think -- you know, I kind of agree
14 with Arthur -- I'm trying to struggle with what is
15 the need for the Commission to know, behind the
16 scenes, the audit trail, how it calculated that
17 net?

18 Because if, you know, the SDR would be
19 receiving the cleared positions from the DCOs, and
20 then the uncleared positions would come in from
21 the reporting entities, and then they could
22 aggregate up these net positions for you --

1 MR. AXILROD: I mean, I think the
2 regulators -- I don't think anyone's saying trying
3 to trace a trade that you can't trace anymore
4 because it doesn't exist anymore. But I think the
5 regulators probably want to know if the world has
6 changed from today to tomorrow, why that happened.

7 And whether you call that, you know,
8 "audit trail" or whatever, you're going to want to
9 know "This went to clearing," and you're going to
10 want to make sure that it foots -- that everything
11 that went to clearing actually results in the net
12 position that the clearer is reporting, that sort
13 of thing -- would be my guess.

14 MR. PRITCHARD: I think, you know, we
15 run a rates repository (inaudible) where we get
16 3-point-something million live contracts in, and a
17 lot of them are cleared. So, you know, we simply
18 get a set of live contracts every reporting cycle,
19 and some of them are cleared and some of them
20 aren't. And if they want to look at something
21 else, like the history, then they can construct
22 that in some way.

1 But fundamentally what's being reported
2 is a set of live contracts. And whether they're
3 with a party and a clearinghouse, or party and a
4 party -- but it does point up, for some of the
5 sort of clearing scenarios that were alluded to
6 over there, that these rules -- if you want to
7 have a universal set of identifiers, will need
8 rules for what constitutes a new ID being
9 generated or not.

10 MR. TAYLOR: Let me ask both Pete and
11 Raf -- because you illustrate the conceptual
12 universe here, I think, on continuation data
13 reporting.

14 Take a cleared trade. A swap was made.
15 It went to clearing. And now, over its existence,
16 it is being reported to you.

17 Pete, you're getting life-cycle events,
18 if I understand properly. And Raf, you're getting
19 snapshots.

20 What's in those, and who's giving it to
21 you? Is it coming from the clearinghouse? I
22 mean, walk through that.

1 MR. AXILROD: It depends. If the
2 clearinghouse is doing its own life-cycle event
3 processing and reporting it, then we're getting it
4 from the clearinghouse.

5 Most clearinghouses -- I mean, not
6 everyone at this table, but one of the two at this
7 table -- oh, this is going to change -- is
8 actually using DTCC's sort of trade warehouse to
9 do it. So, in a sense, we would -- the
10 repository, if you will -- would get that
11 information from the warehouse.

12 For other credit events, we either
13 generate it. For the non-standard trades --
14 which, by the way, given the last session, I
15 believe include all the AIG trades, so I am
16 wondering whether a category of "non-standard,"
17 and throwing everything into that bucket would
18 help us much.

19 That aside, I think -- I mean, this will
20 -- you'll see this in our comment letter. But I
21 think you ought to be, repositories ought to have
22 the flexibility of using whatever method is

1 easiest and best for the market participants.

2 For the trades that are non-standard, it
3 may be easier and better, you know, for us,
4 instead of asking people to report the life-cycle
5 events, to just have them report the snapshots --
6 especially if there's a lot of life-cycle events.

7 When there are not too many life-cycle
8 events, you know, it might be easier to have
9 people just report the changes, or report the
10 life-cycle events.

11 So, right now, for
12 electronically-confirmed trades -- which is what
13 we deal with for credit, but not for equities,
14 where we're sort of going to have to change what
15 we do, because it's actually much more like what
16 TriOptima does -- but for electronically-confirmed
17 trades, I would expect that it's just easier for
18 everybody to have the life-cycle events reported,
19 because they're either going to be computed
20 centrally, or they're going to be confirmed.

21 They're confirmable life-cycle events, they'll be
22 confirmed electronically, and they'll come in for

1 trade. So they're not electronically confirmed,
2 it may be that the only way you can get them is by
3 snapshots.

4 But I think, I really think that
5 repositories -- right? -- if one is good enough,
6 and the other -- if both are good enough -- right?
7 -- then the repositories ought to have the
8 flexibility to use whichever they want to use.
9 You know, if it's good enough for credit, it
10 should be good enough for rates. If it's good
11 enough for rates, it should be good enough for
12 credit.

13 That's our view.

14 MR. PRITCHARD: Well, I'll just follow
15 on briefly there. I think that the two -- you
16 know, from the point in time of the state
17 reporting approach to repositories, the two
18 advantages -- and I think Peter was saying it's
19 easier in circumstances, but we'd totally agree,
20 is that it's more robust, because you're not
21 dependent on anything that was ever previously
22 reported. You simply get a full refresh. If

1 somebody's got a zero position, they don't report.
2 If they've got a non-zero position, they do
3 report. And you just get that fresh, from scratch
4 every day, so it's more robust and
5 self-correcting.

6 And, secondly, you don't need any of
7 these rules about the scenario under which the
8 trade was done, or the history of how it got to be
9 there, because you simply just report all
10 outstanding positions every day. And it makes it
11 a lot simpler to know that you're in compliance,
12 and that you just report --

13 MR. AXILROD: I can't let that go
14 un-commented on. I actually think it's a lot less
15 robust. And the reason I think it's a lot less
16 robust is because a snapshot simply won't tell you
17 why something happened. It will just tell you
18 that positions changed, and you won't really know
19 was this a tear-up? Was this a compression? Was
20 this an assignment? Was it a price-forming event?
21 Was it not a price-forming event? Is it relevant
22 to the market? What's going on?

1 So I think, I mean, that would -- I know
2 we could go back and forth for a while. But I
3 would take the opposite view.

4 MR. MAGNUS: I would just add one thing
5 to that, which I think you've highlighted in both
6 of your comments, and there's truth to both of
7 what you're saying -- is that this goes back to
8 saying we need to be objective-based in what we're
9 trying to accomplish with the reporting and with
10 the identifiers.

11 And, you know, I would argue from JP
12 Morgan and from many of the industry groups that I
13 sit in, we believe that the regulation should not
14 stipulate the technical method for accomplishing
15 the objectives. It should state, "Here's the
16 objectives of what I want to see at the end of
17 every day for continuation reporting," and the
18 industry should figure out what is the best way to
19 do it for that asset class, which may be the right
20 way to do it today. And it may be that three
21 years from now, you know, the industry may change,
22 and it might be better to do it a different way.

1 And for CDS it may change and you want to do it a
2 different way, also.

3 But it should be objective-based, and
4 not actually dictated in the regulation, what
5 method of reporting to the repositories you should
6 use, whether it's life-cycle or totally placed.
7 You should state what the objectives are, and
8 we'll figure out how to meet those objectives.
9 And we'll work with you to figure that out.

10 MR. TAYLOR: We've let this discussion
11 -- because it was so interesting -- bleed a bit
12 into the Q&A time. I suppose I don't feel too
13 bad, because I think Pete's the only person in the
14 audience -- and he's not in the audience anymore
15 -- who asked a question. So we're probably safe.

16 But I will open it up. Is there anyone
17 who wants to ask a question relating to any of
18 this? There's a couple microphones out there if
19 anyone does.

20 (No response.)

21 MR. TAYLOR: Passive investors. What
22 can we say? What else do you think?

1 MS. LEONOVA: Okay, then. I guess we're
2 going to have a 20-minute break for coffee. Thank
3 you. I really appreciate your making it here.

4 MR. TAYLOR: Okay. We're ready for
5 Panel 6, the last of the day, but some very
6 interesting topics. I think everybody is here.
7 Does everyone have their name tags? Yes.

8 We've moved, you know, into a different
9 arena. Not identifiers now but there were
10 interesting questions before us about whether
11 there would be utility in some sort of master
12 agreement library or some sort of portfolio data
13 warehouse and we wanted to get more input about
14 that. So that's the topic here.

15 And let's start with the first question
16 we have, which is should a separate collateral
17 warehouse system be established as part of an SDR
18 to enable the systemic risk and prudential
19 regulators to monitor collateral management and
20 gross exposure on a portfolio level for swap
21 participants? And if so, how do we do that?

22 MR. MAGNUS: So allow me to take a stab

1 at that. We've been talking about that. This is
2 Arthur Magnus from JP Morgan.

3 One of the other hats that I wear though
4 is co- chair of ISDA's Collateral Committee. And
5 it's something that we've been discussing in that
6 forum for a long time. And then in reading the
7 NPR we got a little bit concerned because there
8 are concepts in there that do not work at all in
9 the bilateral space. So particularly, we cannot
10 ascribe -- in the valuation data that you have, we
11 cannot ascribe collateral to an individual
12 transaction. The bilateral OTC space is on a
13 contractual or portfolio basis. We have ISDA
14 master agreements and CSAs primarily, credit
15 support annexes, and they dictate what
16 transactions are part of that portfolio and how
17 that collateral is to move. And we provide a call
18 to our counterparties if we are the valuation
19 agent for collateral and they provide it to us on
20 a portfolio basis. We reconcile the transactions
21 that underlie that on a transactional basis but
22 the collateral is pooled.

1 And for what I'm going to call exposure
2 collateral -- not variation margin, and that is
3 just because the term variation margin as we use
4 it in the bilateral space is different than the
5 draft definitions that you've provided and the way
6 it is used in the future space. And I want to
7 suggest that we need to keep them separate and be
8 consistent. And that will be in several of the
9 comment letters I think you'll get in the not too
10 distant future.

11 So I'm just going to call it exposure
12 margin when I'm talking in the bilateral space and
13 I'll use variation margin for the cleared space.
14 But for exposure margin, it generally is an offset
15 for mark-to-market. So you could argue that the
16 collateral we have you could prorate it among all
17 the deals based on the mark-to-market but it's
18 never an exact match because of the point in time.
19 Initial amount, which is a separate amount that we
20 get from certain counterparties, can be calculated
21 any number of ways. Sometimes it's on a deal
22 basis but frequently it's on a portfolio basis

1 also.

2 So in thinking about that and thinking
3 about the prudential and systematic risk oversight
4 that the regulatory community abroad needs, the
5 only way that you're going to understand what our
6 true risks are and what our true counterparty
7 exposures are is on a portfolio basis. Therefore,
8 we would strongly support the creation of a -- I'm
9 not going to call it a warehouse because that
10 actually has other connotations and collateral,
11 including physically where the collateral might be
12 stored. So I'm going to call it a collateral
13 evaluation repository. Just to be clear, it looks
14 like other repositories and it's on a portfolio
15 basis where it would have in it a variety of
16 attributes, including the mark-to-market of the --
17 the mark-to-markets of the portfolio or the
18 exposure that we have to each other on a net basis
19 -- sorry, on a gross basis without any benefit of
20 any credit support. And what is it after
21 collateral, which is a specific type of credit
22 support. Obviously, there may be other credit

1 support which is very hard to -- it's very hard to
2 put in there what is the value of a particular
3 lien we may have on property, plant, and
4 equipment, or whatever it happens to be.

5 So we would recommend that type of an
6 approach. And then we could also provide for you
7 what is the cash and marketable security
8 collateral that is behind that. And if you want
9 to know where it is we can tell you that also,
10 which we think would serve the purposes of the
11 systemic oversight that you are trying to
12 accomplish.

13 So I'll stop there. We can talk about
14 how you get that and build such a thing if you're
15 interested.

16 MR. TAYLOR: We are but maybe let's go
17 around on the first question first and then we'll
18 come back to how do we do it.

19 MR. PRITCHARD: Maybe I can talk a bit
20 there. This is Raf Pritchard from TriOptima
21 again.

22 So we've talked in some of our previous

1 discussions about repositories, about the
2 diversity of goals that have been set out for
3 repositories, systemic risk monitoring being one
4 but not the most important one, but an important
5 one, but also market risk surveillance and
6 enforcement, and realtime reporting. And one of
7 the things that we've alluded to is that that's a
8 different -- that's got a diverse selection of
9 goals and as a software architect it kind of sets
10 up some challenges as to which one you're going to
11 meet when you design the repository. So I think,
12 you know, what Arthur is describing there, a
13 collateral valuation repository does definitely
14 address the systemic risk goal much more directly.

15 And we've been providing an exposure
16 management service for some time now whereby
17 parties can exchange their data on their line item
18 OTC swap basis and evaluations. And what that
19 enables them to do for their collateral process is
20 to reconcile the total exposure they have between
21 each other early in the 24-hour cycles so that
22 they can get to moving and settling the collateral

1 and delivering the risk mitigation that that
2 provides. And I think, you know, from what we can
3 see we get 75 percent of the noncleared OTC swap
4 live contracts through that service and the large
5 number of dealers and firms on that. And you can
6 see that if you took that and extrapolate it
7 upwards a layer so that you aggregate it across
8 the firm's positions you would get to a pretty
9 good view of systemic risk. And so we, you know,
10 I think it's a good approach towards systemic risk
11 monitoring and it's a feasible one, too.

12 MR. WILL: It's Michael Will here from
13 docGenix. I would agree with Arthur to the extent
14 that a different beast is required as far as the
15 nature of the repository here. We are definitely
16 looking at a portfolio animal, if you like. Where
17 I would slightly disagree with him is really in
18 terms of the level of information that is stored
19 within that particular repository. We're here
20 today to discuss two central themes that have been
21 enshrined by Congress in the Dodd-Frank Act, and
22 namely these are transparency and accountability.

1 To achieve these objectives, it's my
2 view that you, as regulators, will require access
3 to information that's been reduced to data from
4 three distinct but related document types. These
5 are the confirmations, which (inaudible) very
6 well, the economic terms. But we also need some
7 information concerning enforceable master
8 agreements and enforceable credit support
9 agreements. The master agreements themselves
10 include the legal and credit terms, and the credit
11 support agreements contain the margin terms.

12 As I've watched you promulgate these
13 rules, I think it's right and proper for me to
14 perhaps be a little concerned that you are, in
15 fact, missing an important part of the picture by
16 focusing primarily on the economic data to the
17 exclusion of legal credit and margin data. And as
18 a result there's perhaps a risk that you might be
19 unable to achieve the transparency and
20 accountability objects of Dodd-Frank.

21 In short, if you only have access to the
22 economic data, in my view you'll have a mere

1 one-third of the information you need to evaluate
2 counterparty credit risk. And counterparty credit
3 risk is, of course, a key component of systemic
4 risk. In any crisis or legal proceedings, in my
5 view it's inevitable that the legal credit and
6 margin terms enshrined in the master agreement and
7 credit support agreement will take center stage.
8 The events of the past couple of years are no
9 exception.

10 Why is data from these legal agreements
11 important? Well, it's really quite simple.
12 They're the primary mechanism by which the parties
13 manage and mitigate their counterparty credit risk
14 exposure to each other. So I do believe it's a
15 good idea to have a collateral agreement data
16 repository and that swap dealers and major swap
17 participants should be asked to submit data to it.
18 Once you have this repository and you have access
19 to the credit support data, you're going to have
20 access to a number of key pieces of information.
21 For example, is a relationship actually
22 collateralized? I think currently data released

1 by ISDA indicates that 22 percent of all bilateral
2 relationships are not supported by collateral
3 arrangements.

4 You'll be able to have a very
5 transparent view as to the nature of the
6 collateral the parties are using. You'll have
7 indications of whether they're using cash,
8 government or agency securities, perhaps any other
9 collateral agreed between the parties, and
10 sometimes in these agreements one of the parties
11 will have the right to say I unilaterally decide
12 that this is eligible collateral and the other
13 party will have nothing to say about it. You'll
14 learn about valuation percentages and haircuts, as
15 well as minimum credit requirements for the
16 collateral. Frequently collateral will need to be
17 highly rated to be eligible.

18 Thresholds also are of great interest
19 because they're used to calculate exposure. I'm
20 referring here, of course, to independent amounts,
21 thresholds, minimum transfer amounts, and initial
22 margin. And this is important. These thresholds

1 are extremely sensitive to minor changes in credit
2 ratings and asset value declines.

3 Another important factor will be the
4 nature of the relationship. Is it bilateral or
5 unilateral? In some agreements only one party has
6 the obligation to post collateral. You'll be able
7 to find out rights of the parties to substitute
8 collateral, valuation procedures and dispute
9 mechanism, the rights of the parties to reuse or
10 rehypothecate the collateral, as well as the scope
11 of the collateral coverage. Indeed, it's not
12 uncommon for parties to actually exclude
13 transactions from the collateral arrangements. So
14 I think we need to go a little bit further.

15 MR. PICKEL: Bob Pickel from ISDA. Far
16 be it for me to suggest that there's not a wealth
17 of information in master agreements and credit
18 support annexes. (Laughter.) There is plenty,
19 and it is very important, and as Mike suggests, at
20 critical times it is, you know, in many ways the
21 most important information.

22 I guess I would circle back to a theme

1 that we've been sounding in some of our comment
2 letters. I think it's been sounded to some extent
3 today. We certainly sounded it yesterday with the
4 New York Fed and Sarah Josephson from the CFTC and
5 other global regulators, and that is let's figure
6 out what the critical first steps are here in
7 terms of the information that you feel you need.
8 Yes, I think there's a lot of -- the risk that get
9 created, the exposures that get created are
10 created through those transactions that are put
11 on. And so it's important for you to have a
12 window into that information.

13 It may very well be that it's important
14 for the CFTC to have the kind of information that
15 Mike suggests and we can look at that over time.
16 I think most importantly you should have -- make
17 sure that the prudential regulators are requiring
18 their regulated entities to maintain this
19 information. Obviously, make sure they've got
20 master agreements in place and there are other
21 master agreements. I think the LEAP one was
22 measured earlier today. That they know what the,

1 you know, obviously you have access to the master
2 agreement. You know what's in that. There's a
3 schedule to that. That's the structure. It's
4 really those variations from the master that are
5 most relevant in many things like cross defaults
6 and the credit support annexes, various thresholds
7 and triggers and things like that that are very
8 important.

9 So I think it's important for the
10 regulators to require the institutions to have
11 that in place. And there can be -- there are
12 mechanisms, and Mike I'm sure would be happy to
13 talk about them, that may facilitate the more
14 ready access of the entity to that information.
15 And we'll see how that develops over time. But I
16 guess I would, you know, circle back to the notion
17 of phasing in. Let's think about what's most
18 important, what the first steps are as we consider
19 these other issues of master agreements and credit
20 support annexes.

21 MR. TROZZO: Pat Trozzo from Reval.

22 Just to extend some of the good points that have

1 been brought forward here today, taking it up to
2 maybe a little higher level first, is, as I read
3 the rules, I believe there still needs to be
4 further definition of what are the goals in the
5 area of overseeing or measuring and tracking
6 systemic risk. Like many things in our business,
7 the devil is in the details. And those details
8 will drive a lot of the issues that we're hitting
9 upon here today and answer to some of the
10 questions -- many of the questions here in this
11 panel. So I think that first needs to be --
12 questions of if you are looking to what degree to
13 measure it, right now potentially the rules are
14 written that you're limited to more of a current
15 exposure approach of looking at counterparty
16 credit exposure as opposed to maybe some
17 alternative means. So I think that definition
18 needs to be further extended and clarified. And
19 then that will help drive a lot of, if you will,
20 some of the answers to these questions.

21 And then one other thing I'll add is
22 there's the legal aspects of netting and so forth.

1 All the points brought forward here are correct
2 and I agree but there's one other area what I
3 would call more of the economic look of the
4 exposure across an enterprise between one
5 enterprise and another enterprise and looking at
6 the overall exposure, that on the bilateral mass
7 agreements doesn't necessarily cover it. There is
8 a related party effect of multiple agreements that
9 may come into play here and I call that more the
10 overall economic look. So that also I think needs
11 to be taken into consideration when looking at
12 overall systemic risk and counterparty credit
13 exposure.

14 MS. GOLDMAN: Hi. I'm Melissa Goldman
15 from Goldman Sachs. I would also like to
16 reiterate the points made by both Arthur and
17 Robert in terms of the way we view the collateral
18 risk and being at portfolio level and the need to
19 be able to represent it that way to get the most
20 accurate view of where the risks live.

21 I would, to Mike's point, I would like
22 the agreement sort of data similar to some of the

1 conversations that we had around the product
2 identifiers in that the -- you could think of the
3 masters and the CSAs as a -- almost as an exotic
4 in how we need to model that data and represent
5 that data. And it's not always at all
6 straightforward in terms of how that becomes
7 represented within a data model.

8 Additionally, I think there's, you know,
9 a significant amount of interpretation that
10 happens with that data and so to be able to sort
11 of go through that -- the cost of going through
12 that interpretation and then systemically
13 representing it in a central repository would be a
14 quite expensive exercise.

15 MR. AXILROD: Can I just make it
16 unanimous in the sense that I think, you know, the
17 obvious missing piece from what everyone had been
18 doing was the collateral. You simply are not
19 going to understand -- this may not be sufficient
20 but you simply are not going to understand
21 systemic risk or exposures unless you understand
22 what collateral is held where and essentially

1 parties' legal rights to it. So yes, I fully
2 support making that fact transparent to
3 regulators. I think that I also agree that on a
4 bilateral basis, just as on a cleared basis,
5 right, nobody collects collateral, whether cleared
6 or uncleared, on a trade by trade basis entirely.
7 They do it on a portfolio basis generally. So
8 you're stuck with portfolio- based collateral
9 reporting, which means that you're going to have
10 to put together all the various valuations that
11 you got in the individual repositories, assuming
12 that they're complete and accurate. You probably
13 ought to include in what's reported to
14 repositories as maybe static data or something
15 else, whether this particular counterparty or this
16 particular group of transactions actually is done
17 on a collateralized basis or not. But the
18 important thing really is to compare the value of
19 the portfolio with the value of the collateral.
20 If there's a very big disparity, you know you
21 probably have to make some more inquiries.

22 The other thing that you really need to

1 get a handle on is, you know, and this will come
2 down to concentrations, but what collateral might
3 a counterparty have to put up with very small
4 movements in the market or a particular event. So
5 if you've got -- if it looks like a party is going
6 to have to come up with collateral upon the
7 occurrence of certain events that they're just not
8 going to be able to come up with. And this
9 includes across cleared and uncleared trades. And
10 you won't understand it unless you get the whole
11 picture across cleared and uncleared trades.

12 You're not going to know whether a
13 particular event will drive that party under and
14 essentially, you know, cause the system to
15 collapse. And in that event, the legal right to
16 require people to post collateral isn't so
17 important as the practical realities really. Is
18 this guy extended to the limit of the amount of
19 collateral he can post? Will certain sorts of
20 events make it so it's going to be impossible for
21 him to post variation margin? Should people be
22 collecting additional either CCPs or bilateral

1 counterparties? Collecting additional sort of
2 initial margin because these positions are just
3 too concentrated and you need to do something to
4 protect yourself against the fact that when the
5 position starts to deteriorate, generally this
6 firm won't be able to come up with anything to
7 provide anybody.

8 So I think you need to concentrate. A,
9 we need to have a repository like this. You need
10 to know where the collateral is and you need to do
11 something to figure out, you know, these sort of
12 exposure to events over concentrations that are
13 going to make it difficult if not impossible for a
14 firm to put up additional collateral.

15 MR. MAGNUS: I would just add to that
16 that, you know, JP Morgan has spent tens of
17 millions of dollars to build systems to take the
18 data that we have in our master agreements and in
19 our transaction and data repositories to look at
20 our exposures in different ways to understand what
21 happens when a counterparty gets downgraded or a
22 trigger or something happens in the market to

1 stress test the portfolio. These are very, very
2 complex calculations and we make them available to
3 our prudential regulators already on a regular
4 basis.

5 I think this is incredibly important
6 information and, you know, my first, you know, the
7 first thing I would say is, you know. Dodd-Frank
8 is going live in this year. If you're going to
9 collect this data and do something with it it's
10 going to take years to do. It's taken us years to
11 build the infrastructure as we have to manipulate
12 this data and use it effectively in our risk
13 management regime. As has been pointed out in
14 numerous other places, you know, a huge percentage
15 of the market share -- I think the CFTC has quoted
16 over 90 percent of the market share is
17 consolidated in five dealers which are all subject
18 to prudential regulation in this country. And we
19 already share with those prudential regulators
20 significant information about our portfolios and
21 what happens in various scenarios.

22 My short term recommendation, certainly

1 until we can sort of what we're doing because I
2 think this is important and I think Dodd-Frank
3 says you should have -- you need -- we need to
4 make sure this information is available in some
5 form -- you should look through the Financial
6 Stability Counsel, as well as working with the OCC
7 and the Fed who are generally the prudential
8 regulators through the -- I guess it's the
9 memorandum of understanding (MOU) process that you
10 have between regulatory agencies to share this
11 information because that will give you a huge view
12 of the risks that are currently being run in the
13 market place.

14 I think that a master agreement library
15 is probably, you know, an expensive definition of
16 what is in Dodd-Frank. And quite frankly, I think
17 we have so many fish we have to fry, if you will,
18 in order to implement what we have to implement.
19 We ought to focus on that first and then come back
20 to this one at a later date because this one --
21 there's so many different ways you can use that
22 data that just collecting it without understanding

1 how you're going to use it I think would be
2 difficult and just incredibly complicated and
3 expensive. So we're going to put it into
4 repositories and we're not going to use it because
5 we can't figure out what we're going to do with
6 it. And if we're not going to spend the tens and
7 hundreds of millions of dollars you're going to
8 have to spend to actually crunch it, then we're
9 probably not the best use of our time at this
10 moment in time. And it's probably something we
11 should be coming back to after we move somewhere
12 down the road. And I would echo what Bob said
13 earlier and what we suggested to the ODSG
14 yesterday through the IIGC, is that we need to
15 move in incremental steps to implement this. This
16 is a sweeping piece of legislation, as we all
17 know, and it contains many structural changes to
18 the infrastructure. And we need to work together
19 and we need to do it in a stepwise fashion in
20 order to implement this in a way that is not going
21 to disrupt the market and disrupt commerce in the
22 United States and potentially move jobs and

1 business out of the United States.

2 MR. AXILROD: I would agree.

3 MR. TAYLOR: Before --

4 MR. AXILROD: Oh, sorry.

5 MR. TAYLOR: Before he does that
6 follow-up, I thought somewhere in the course of
7 that you shifted over from information about
8 collateral to master agreement library. And I
9 just want to make sure which one we're talking
10 about.

11 MR. MAGNUS: I was -- I was particularly
12 talking about the master agreement library. As I
13 said before --

14 MR. TAYLOR: Let's save that one.

15 MR. MAGNUS: -- I support -- as I said,
16 I support and JP Morgan supports the idea that we
17 should create a single portfolio repository for
18 looking at exposure-related information and the
19 credit support and collateral against it to be
20 very clear.

21 MR. TAYLOR: Okay. Let's -- let's beat
22 one horse to death before we do the other one.

1 MR. WILL: Okay, I would actually
2 disagree with that and the reason why, perhaps not
3 surprisingly, is that the only way you can get a
4 complete view of the exposure you have to a
5 counterparty is a combination of economic data
6 contained in the confirmations, the master
7 agreement, and the credit support agreement. I
8 understand the points and actually would endorse a
9 phased approach. I think that's a good idea. But
10 I think if you as prudential regulators want to be
11 -- want to have advance knowledge of say a ratings
12 downgrade hedge trigger that it impacts a
13 particular party, I'm not sure with Arthur's
14 proposal that you would actually have any advance
15 notice. It would just happen. However, if you
16 had access to information in the master agreement
17 which required a party to post collateral, then
18 you would. You would know it was coming.

19 MR. AXILROD: I would say amen. First
20 -- first, I'm sorry, to Arthur. (Laughter.)

21 You've got to understand the collateral.
22 Right? The last place anybody wants to be is, you

1 know, big counterparty exposures and not having a
2 clue what the collateral is. And I can just see,
3 you know, Senator, I don't know why I didn't know
4 but we didn't know. I guess my successor will
5 figure that out. I think that's a -- I think you
6 really have to get that first things first.

7 MR. WILL: I think some senators have
8 actually been told, Senator, I didn't know.

9 (Laughter.)

10 MS. GOLDMAN: And just to echo Peter's
11 point, I mean, you have to walk before you run and
12 I think there's a whole slew of data that's out
13 there that's going to be relevant from a risk
14 management perspective even beyond the stuff that
15 we're talking about here but it's really about
16 where, you know, the core of the risks exist. And
17 in fact, I think the industry is moving towards,
18 you know, some of the biggest risks around
19 portfolio reconciliations and dispute resolutions.
20 And so where, you know, we see the biggest issues
21 focusing our time and our resources around that
22 rather than on some of the collection of this data

1 which then would absolutely need to be, you know,
2 invested in the collection and then beyond that
3 modeled in a way, that would give meaningful kind
4 of risk information.

5 MR. PICKEL: And I think -- and I
6 realize for certain types of entities, the CFTC
7 might become a prudential regulator. But of
8 course, the most active participants in these
9 markets are going to be the large financial
10 institutions who will be -- have a different
11 prudential regulator. And obviously, as Arthur
12 and Melissa mentioned, you know, there needs to be
13 coordination with them on this information.

14 You know, collateral is critical.
15 Whether that just means that -- whether that means
16 the prudential regulator has to know all the
17 details or whether it needs to be confident
18 through its oversight of the entity, that the
19 entity has a good handle on that and that the
20 prudential regulator has the opportunity at any
21 time to find out what that position will be or is,
22 I think that's a different scenario than kind of

1 everything getting, you know, flowing into the
2 prudential regulator. It's a question of making
3 sure that the regulated entity has the
4 methodologies in place, the practices in place to
5 make sure that they are tracking it properly and
6 in turn the prudential regulator can see that.

7 MR. PRITCHARD: Can I just comment
8 there? I think (inaudible) swapped out a
9 repository hat on again and it's interesting what
10 Melissa said. She characterized the collateral
11 terms as an exotic because there's a sort of walk
12 before you run aspect to this which is, you know,
13 we've heard about the exotics bucket today already
14 and I think you really need to be sure that you're
15 capturing all those trades in some detail and
16 capturing the valuations of all those because if
17 you're not doing that effectively, then knowing
18 about the what if scenarios on your
19 collateralization is really of secondary
20 importance. So I think to Arthur's point about
21 the phasing and putting things in order, then it's
22 really important the repository captures accurate

1 -- the accurate complete population, exotic as
2 well as standardized, and gets values on that on a
3 continuation basis. Then captures the exposure at
4 the relationship level and then can start looking
5 at the more exotic sort of scenarios on the
6 collateral.

7 MR. AXILROD: I guess I would never
8 disagree with a statement that they swap data
9 repository out have the best possible, most
10 accurate, most up-to-date swap data that the
11 regulators want to see. And I agree with that.
12 But I honestly think that you could equally say
13 without understanding the collateral the swap data
14 information isn't very relevant either. This is
15 one of those cases where you really need to have
16 both and it's not -- you're not -- I don't think
17 you ought to sequence the -- what Arthur called
18 the collateral reporting repository with the swap
19 data repositories. They ought to be, whether
20 it's, you know, sequenced maybe by a couple of
21 months but that's the basis. You need to see all
22 that information.

1 MR. MAGNUS: No, no, Peter, I agree with
2 that. What I was saying sequence was if you want
3 detailed master agreement information.

4 MR. AXILROD: No, no.

5 MR. MAGNUS: I totally agree that the
6 swap data repositories and this portfolio
7 repository probably need to come into existence.
8 There's relationships potentially between them
9 that we could devise through interesting use
10 cases. But they're going to be separated by
11 whatever the practicality is of building them.
12 We'll probably build them on independent tracks
13 and they'll be done when they're done but it'll be
14 around each other. It's the more detailed master
15 agreement information that I was commenting on.

16 MS. GOLDMAN: And by the way, I was
17 echoing that same comment. Okay.

18 MS. LEONOVA: Can we focus on
19 independent tracks for collateral data warehouses
20 and whatever else we are talking about right now?
21 You can't keep names straight.

22 MR. TAYLOR: And let's do -- let's do

1 the collateral piece first. There seems to be
2 passionate unanimity around the table that the
3 answer to our very first question, should we have
4 a separate collateral warehouse system, is yes,
5 absolutely.

6 Well, the next question was, how should
7 this be done? And I thought I was hearing in what
8 some of you were saying the notion that there
9 might be one SDR warehouse repository or whatever
10 you want to call it here, that that information
11 might not be sitting in each of the SDRs but might
12 be sitting in one location. Obviously, the other
13 possibility is that it sits in each SDR with
14 respect to the swaps that got reported there.

15 MS. LEONOVA: It doesn't really matter
16 whether it sits in the same SDR, not whether it's
17 the same system or not.

18 MR. TAYLOR: Yes.

19 MS. LEONOVA: Whether we want to keep
20 two separate systems and if they are separate how
21 we link them or we try to merge it all together.

22 MR. MAGNUS: So logically -- forget

1 about where it physically resides -- there should
2 be one -- as we will probably end up with one
3 hopefully asset class repository for each asset
4 class, the regulations, the draft regulations
5 provision that we might end up with more than one,
6 that information cannot be housed with the asset
7 class information. It needs to logically be kept
8 in a portfolio that cuts across asset classes
9 because the information is across asset classes.
10 The portfolio I described before, which I did not
11 put that adjective on it, is across asset classes.
12 The ISDA master agreement and the CSA cover all
13 asset classes simultaneously between two legal
14 entities. So therefore, it needs to be in a
15 separate place.

16 Now, whether or not we have multiple
17 repositories that have this information, that
18 could become inefficient and then you have to
19 figure out, well, which one does it go in and who
20 is doing the reporting, which are other things
21 we'll figure out over time. There are probably
22 advantages when you start talking about that, at

1 least for the large players, to have large players
2 put their entire portfolio in it and not have, for
3 example, I'm going to use Goldman because Melissa
4 is sitting next to me. If Morgan has -- if one
5 Morgan entity has a portfolio with Goldman to say
6 that Morgan is always going to be reporting it
7 actually probably makes some sense for both of us
8 to report it from our vantage point because that
9 actually provides with the biggest players some
10 useful information to you about whether or not
11 we're valuing those portfolios roughly the same.

12 MR. TAYLOR: No, I have had prudential
13 regulators say to me it's interesting, it's useful
14 to know that AIG, just to take a random example,
15 thinks this collateral is worth, you know, \$100
16 billion and the counterparty things it's worth \$10
17 million.

18 MR. MAGNUS: Thing that that I would --
19 and I would absolutely agree with that. The other
20 thing that I would say is the biggest issue that
21 we had around transparency with that situation was
22 the fact that there was a longstanding dispute of

1 a very large size that was not transparent to the
2 supervisory community. As we told the -- as we
3 told the ODSG yesterday, we believe that we've
4 actually solved that through the commitments
5 process of providing reporting of large disputes
6 on a regular basis to our prudential regulators.
7 At least now they have the tools to identify that.
8 We also have portfolio reconciliation and a few
9 other tools that are coming out in your draft
10 regulations also that would prevent that type of
11 situation. But I absolutely agree that you would
12 want to see both sides of that if you can. And
13 obviously there are certain counterparties in the
14 market if I'm dealing with a smaller corporate,
15 for example, that probably would not be reporting
16 into that portfolio repository. It probably
17 doesn't make sense to force them to do that to be
18 a player.

19 MR. TAYLOR: Two follow up questions to
20 that. One of them is I take the point. I think I
21 thought some agreement to this that this goes
22 across asset classes. And I think it's obvious

1 that the statute at least permits a repository for
2 a single asset class. I mean, it doesn't say that
3 repository can't do multiple asset classes but it
4 doesn't say it has to either. Does that suggest
5 then this really needs to be in a separate place
6 as opposed to each SDR?

7 MR. MAGNUS: Again, to the point I
8 started to answer Irina's question is it needs to
9 logically be separate from the asset class
10 repositories. I mean, if there was one uber
11 repository that we had globally that covered the
12 entire derivative world, that's a different story.
13 That's not going to happen under any scenario I
14 can think of.

15 So we're going to have asset class
16 specific repositories. We'll probably have
17 multiple repositories in an asset class as we
18 start going international. But if a prudential
19 regulator wants to see, and particularly a
20 systemic regulator wants to see what JP Morgan's
21 position is to any other counterparty, we should
22 be reporting that somewhere so that our prudential

1 regulators can see that at a summary level. We
2 provide that information today by the way and they
3 have access to that information. They have to
4 come to us to get it and they have regulators and
5 supervisors onsite who go into our systems on a
6 regular basis to see that but if they want to see
7 it in aggregate then you need to report it
8 somewhere.

9 MR. PICKEL: I think that having the
10 repository -- I'm not going to contradict my
11 members here. If they want to have it, they'll
12 build it, they'll make it, and they'll make it
13 available to the regulators. But ultimately, that
14 can't be any substitute for the prudential
15 regulators really getting in there and
16 understanding what the collateral positions are,
17 what the policies are. That's what I would get
18 back to. The repository may be a good first look
19 to see what the big picture issues are but if the
20 work's not being done at the regulatory level in
21 the institutions, then the repository is not going
22 to be all that useful I don't think.

1 MR. MAGNUS: And Basel II actually
2 supports that because we have to actually do some
3 fairly complex exposure calculations that take
4 into account all of this information in order to
5 produce risk graded asset requirements under Basel
6 II. And our prudential regulators are the ones
7 who have to sign off on the models that we're
8 actually using. And so they are -- I can assure
9 you they are spending a huge amount of time
10 digging through how those models work and what
11 information goes in the controls over those models
12 and everything else. So one would hope that we're
13 doing a reasonably good job calculating in a way
14 that the supervisory community is comfortable with
15 so that the results that come out of that would be
16 of use to the various regulatory bodies and we
17 would not try to replicate those calculations
18 externally. But again, reporting it could add
19 value. And if you're going to want that
20 information, I can understand many reasons why you
21 might want to see it in a data store so you can
22 look across organizations and not only see how

1 much exposure JP Morgan maybe has to a particular
2 MSP or an end-user, but how much five other
3 dealers have and see it in some aggregated way.
4 That becomes useful in a repository. But short of
5 that I would go with Bob's approach, which was the
6 prudential regulation approach.

7 MR. TAYLOR: Let me ask all of you, are
8 you thinking that this information needs to sit at
9 least in a separate system, as opposed to, you
10 know, this is (inaudible) all the regulator
11 assets?

12 SPEAKERS: Yes.

13 MR. PRITCHARD: Yeah, I think if I can
14 just go back to your original multiple repository
15 question, I mean, in order for parties to agree
16 their exposure between each other which they then
17 subsequently collateralize, they submit that live
18 contract on a cross asset class basis to a single
19 venue, exposure management service, that then
20 reconciles them.

21 And secondly, as both Arthur and Melissa
22 allude to, you know, collateral is not really

1 meaningful at the transaction or life contract
2 level in OTC derivatives. It's only really at the
3 relationship level. And so the fundamental, you
4 know, the trade repositories are at the trade
5 level and then this collateral or this exposure
6 view would then be at the relationship level. And
7 that would be -- there's some advantages of that
8 because it, you know, as we've seen there are
9 multiple repositories and this would pre-aggregate
10 that.

11 MS. LEONOVA: May I? I didn't get
12 (inaudible) discussions on Panel 4 and 5. Does it
13 mean that we want to ultimately track the master
14 agreement identifier rather than transaction
15 identifier itself and link all individual
16 positions (inaudible) master agreement?

17 MR. AXILROD: I guess eventually but I
18 think you'd want -- I'm sure this thing is going
19 to evolve but you need to stop right -- you need
20 to stop the bleeding. And you know, so far not
21 much of what we've been talking about actually
22 affects the AIG type of situation which was the

1 largest single contributor of TOC derivatives to
2 the 2008 crisis. And this sort of thing does.
3 Right? If you have -- if you have the positions
4 and if they get very concentrated, which means
5 that the concentrated positions are sort of
6 dominating the portfolio, if you will, to relate
7 it back to the other discussion, the exotics are
8 now a large part of a systemically important
9 firm's portfolio. The next thing you want to know
10 is what's the valuation. Do parties agree and is
11 there collateral? And I guess the only -- the way
12 to do that is by having a separate collateral
13 reporting portfolio. I understand that
14 supervisors need to do their jobs, too, but I
15 agree. I'm sort of a belt and suspenders guy.
16 I'm not going to rely on one thing to prevent the
17 system from going under. Yes, it's very important
18 that prudential supervisors make sure that firms
19 do the type of risk management they're supposed to
20 do but I'd also like to have the suspenders as
21 sort of an early warning system. And it's
22 positions concentration values collateral, and if

1 you see those getting out of whack you've got a
2 problem.

3 MR. WILL: I actually think --

4 MS. LEONOVA: I'm sorry. ON what level
5 are you tracking collateral? You have to tie it
6 to something. What are you tying it to?

7 MR. AXILROD: Oh, you're tying it to the
8 portfolio because that's what the firms do. So,
9 but it's just going to be the case if you have --
10 if you've written \$80 billion in notional exposure
11 to mortgage securities and the rest of your
12 portfolio is, you know, \$10, \$20 billion, that's
13 going to drive your collateral requirements. And
14 it's just because the firm's position is very
15 concentrated. So you'll be able to -- it doesn't
16 have to all be tied together perfectly in a nice,
17 you know, in an all singing, all dancing model
18 base system to get some use out of that. I think
19 at a very rough level you need the basic data.
20 And as long as you have the basic data, some of
21 the things are just going to pop out at people.
22 And that's the stuff you'll get, you know, and

1 that's likely to be the most obvious stuff that's
2 going to create systemic risk. If there's stuff
3 you won't see unless you apply a very exotic,
4 fancy model, okay, so you'll miss it. What you
5 don't want to miss is this simple, obvious stuff
6 that -- just some basic informational sort of
7 throw in your face.

8 MR. WILL: Irina, I actually think you
9 do need two new categories of identifier. One for
10 the master agreement, one for the CSA.

11 MR. PRITCHARD: I think if it's helpful,
12 Irina, in our exposure management service, what
13 corresponds to the relationship most directly is
14 an agreement. That's -- when parties set up
15 something that they're going to resolve the
16 dispute over the exposure on, often the
17 relationship that they're modeling there is an
18 agreement, some kind of collateral agreement.

19 MS. GOLDMAN: Yeah, I mean, I would
20 agree with the points that you need to be able to
21 roll up your transactions under the appropriate
22 agreement and then apply the appropriate

1 collateral to that and sort of bring that
2 altogether. And I think you also probably want
3 the ability to then look at, you know, maybe
4 separately the broader uncollateralized exposure
5 in which case you might go back to the SDR to, you
6 know, to pull that using again a common identifier
7 to bring that picture together.

8 MR. MAGNUS: But the definition of an
9 agreement in that particular instance, Raf, is
10 just the fact that, let's say Morgan and Goldman
11 again, using that example, have agreed that we
12 have an agreement and we're telling you that
13 there's an agreement there. It's an ISDA Master
14 and you don't have any other information about
15 that agreement.

16 MR. PRITCHARD: Correct, yeah. For the
17 avoidance of that, that is true.

18 MR. MAGNUS: Yeah. And, you know, the
19 minimal amount of agreement you need to know is
20 this particular Morgan entity, this particular
21 Goldman entity, this is the agreement name and
22 this was the date it was executed.

1 MR. PRITCHARD: Yeah, I was just saying
2 that's what it corresponds to.

3 MR. MAGNUS: Yes.

4 MR. PRITCHARD: We don't have any data
5 about it.

6 MR. MAGNUS: Right. And that's the
7 important thing. And that is how we actually pull
8 portfolios together today, and that does work.

9 MR. TROZZO: You know, again, if you
10 look at it you're going to have, you know, we're
11 going to take, without mentioning names, say
12 Counterparty A, Counterparty B. Their whole
13 portfolio is going to be spread across the
14 relative SDRs. Whether there's multiple SDRs in
15 an asset class or one in each. But they're spread
16 across asset classes and multiple SDRS. Okay, so
17 first of all, the first step is you've got to find
18 some mechanism and rule to net those. That's
19 driven by an agreement. Okay? So there has to be
20 some connection there. I agree with Arthur that
21 this gets very (inaudible). It takes years to
22 build. No doubt about that. But maybe there is

1 some phase-in approach or first layers.

2 MS. LEONOVA: Okay, what is a phase-in
3 approach? That's what we're trying to get out of
4 you.

5 MR. TROZZO: We'll come back. But you
6 have to connect those because there's been some
7 discussion on whether -- I think you need not only
8 the transactions with the SDR and some rules too
9 net those which are driven by the master
10 agreements so you're going to need something from
11 there. And it will then connect to a CSA which
12 should be housed in a separate warehouse. That's
13 what we all agree. You need all those pieces.
14 Without all those pieces, regardless of whatever
15 phased-in timeframe it is, you will not have your
16 counterparty credit exposure. You will not have a
17 feel of systemic risk. So you need them all. And
18 the phase, you know, how do you phase it in? You
19 know, that starts getting into some of the other
20 points below regarding the technology and
21 timeframes.

22 MR. WILL: I think you could have

1 actually parallel phased approaches for the CSAs
2 end also. I know I'm touching on ground I
3 shouldn't really go to in terms of master
4 agreements, but the master agreements.

5 MR. AXILROD: Can I just very quickly,
6 in terms of phasing in, I know you sort of want to
7 have the roadmap of where you're going but I think
8 to try to figure out what the end state is going
9 to look like now is just going to get people sort
10 of running around in circles. And I would say,
11 look, this is the most important thing is that we
12 need to get done in the next year, you know,
13 before year end or the first half of 2012. And
14 just fair warning, by the way, another shoe is
15 going to drop but we need to get some -- we need
16 to get some experience with this. And I would say
17 given, you know, the industry is just now trying
18 to deal with -- because they've been dealing with
19 SEFs and clearing and everything else. They're
20 just now sort of waking up to, oh, we've got all
21 these reporting requirements and it's a big
22 technical challenge. And they'll do it. I mean,

1 everyone's determined to do it but it's a
2 technical challenge to get it done. So I think
3 for really through the middle of 2012, if you can
4 focus on getting accurate trade data into the
5 repositories and accurate data around, you know,
6 collateral collected under CSAs into another
7 repository, that's going to be very difficult to
8 do but that will be a huge step forward in terms
9 of, you know, regulators' ability to oversee the
10 markets and their counterparties. And I think a
11 lot of good would come of that.

12 MR. TAYLOR: Let me ask, I think you all
13 are envisioning, and, you know, Bob is sitting
14 here on behalf of his members and a couple of the
15 members are here, you know, who will have to do a
16 lot of reporting, counterparty reporting. It
17 sounds as though this vision would mean we are
18 adding a reporting stream for the reporting
19 counterparty. You have to report the transaction
20 data, you know, that's required for the swap to an
21 SDR and you have to report to some collateral SDR
22 let's call it, collateral information. Am I right

1 that's what you're envisioning and can that be
2 done?

3 MR. MAGNUS: Well, I'd actually take a
4 slight step back. Again, I use the words
5 "collateral" and "valuation repository" originally
6 and intentionally because what you're looking at
7 is the exposure under -- is the master agreement
8 or any other master agreement. And first of all,
9 not everything is collateralized under it, so the
10 first question that you want to ask yourself if
11 you're looking at systemic risk is what is the
12 exposure, you know, that JP Morgan has to AIG if
13 AIG were to default? I'll use AIG as an example.
14 If we did SpotFX with them or we do certain
15 transactions with them that are not covered by the
16 CSA, they would never be in a portfolio just
17 looking at collateral or the collateralized risk.
18 So that's sort of one piece of it.

19 So what you really want to understand is
20 what is our exposure to the counterparty, that's
21 question number one. And then what is the amount
22 of exposure under the CSA and what is the value of

1 the collateral against it? You may additionally
2 want the -- what is that collateral made up of, so
3 you can look for other concentrations and things
4 like that in the collateral, which, to me, that's
5 a second order. Let's just get the first bit I
6 just said first.

7 The linkages is going to be some kind of
8 a portfolio identifier, which will link to a legal
9 agreement. But we have to be careful what legal
10 agreement we do and we want to keep it very, very
11 simple in its initial incarnation. But the reason
12 why we're recommending this is as a practical
13 response to what you have in the NPR where you're
14 asking for valuation of collateral data because
15 you believe you need that for your supervisory
16 functions. And what we're suggesting is we would
17 rather do it that way in a single repository where
18 we can give you it on a portfolio level, which is
19 a logical way to make sense of it, than a
20 transactional level where we would only be able to
21 do it arbitrarily and we can't provide that
22 information in a useful manner. So to us, we're

1 trying to help you get to a solution that we think
2 is a practical solution to achieve what you want,
3 but we're also trying to say yeah, but don't make
4 us give you information at a transactional level
5 that doesn't make sense.

6 MS. LEONOVA: Okay, going to portfolio
7 level data, do you propose universal reporting of
8 the portfolio level or only on the levels for
9 dealers and MSPs?

10 MR. MAGNUS: I'm sorry, when you say as
11 a swap dealer would we have to report on all our
12 counterparties or are you saying --

13 MS. LEONOVA: No, I'm saying --

14 MR. MAGNUS: -- everybody who plays in
15 the market?

16 MS. LEONOVA: You're here talking about
17 portfolio valuation, (inaudible) house, whatever
18 we are calling it right now. Are we talking about
19 universal reporting requirement of all
20 counterparties or are we talking about reporting
21 requirements imposed only on swap dealers and MSPs
22 who actually have large portfolio exposures --

1 MR. MAGNUS: I would certainly recommend
2 that only sophisticated players would be able to
3 do that. Many of the smaller players rely on
4 their dealers to actually provide that information
5 to them anyway, and to impose on that portion of
6 the market the technical requirement that they go
7 and provide that doesn't, to me, feel like it
8 makes a lot of sense. I would --

9 MS. LEONOVA: How much market do you
10 believe it can recover?

11 MR. MAGNUS: Well, we -- if you get --
12 if most of the deals today are between a swap
13 dealer and other players in the marketplace,
14 there's very little -- there's very few deals that
15 I'm aware of between -- and maybe Bob has industry
16 data that I don't have privilege to, between let's
17 say in between MSPs or between MSPs and end users
18 by using your definition.

19 MR. AXILROD: Outside of commodities.

20 MR. MAGNUS: Outside of commodities.
21 And again, I'm talking derivative transactions,
22 not physical. So even commodities I would argue

1 that, when you talk about derivatives, they're
2 generally between executing brokers or dealers.

3 So I think if you had the dealers doing
4 the reporting, you would capture the vast majority
5 of the transactional data, most of the risk. If
6 you discover through the trade repositories, which
7 will have all of the transactions and all the
8 positions that parties have, that there are
9 players who are doing deals with each other that
10 are not reporting to this portfolio level
11 collateral and valuation repository, then I would
12 suggest they might be more systemic than they've
13 let on to. Maybe they should be registered as an
14 MSP, and that's a different dialogue which you as
15 a prudential regulator can go and have a
16 conversation with that about.

17 MR. TAYLOR: Let me do a follow-up to
18 that. Are you all suggesting, you know, as part
19 of the continuation data that we wanted to get
20 over the existence of a swap, we were asking for
21 valuation data, are you suggesting that all of
22 that valuation data reporting ought to go into

1 this collateral SDR rather than into the regular
2 SDR, if I may call it that? You know, unpack
3 that. And then you might also talk about, I mean,
4 you know, the statute has this setup where one
5 counterparty reports, it's not two. And I heard
6 you all saying, you know, it'd be nice to know the
7 view of each counterparty about what the
8 collateral is worth. How do we deal with that?

9 MR. PICKEL: Yeah.

10 MR. TAYLOR: Go ahead, Bob.

11 MR. PICKEL: Well, I was going to say
12 that I think, you know, realistically, you know,
13 once the trades are on, they're being managed, as
14 we've talked before, as part of a portfolio, so it
15 really is this portfolio level information.
16 Because you're going to have thousands of trades
17 potentially underneath the master agreement,
18 governed by the master agreement, and they're all
19 going to be, you know, fluctuating in value based
20 on market prices versus the price of the contract.
21 You're going to be looking at your exposure across
22 all those on a netted basis. You're going to be

1 calling for collateral on that basis. So, yes,
2 actually I think it probably is far more relevant
3 to be looking at that valuation at that level than
4 to be valuing every single contract as
5 contemplated.

6 MR. PRITCHARD: And I think, you know,
7 from the current industry practice, a huge amount
8 of the industry is currently comparing their
9 exposure and reconciling their values of the live
10 contracts. If, you know, we are piloting some
11 parties who want to reconcile the collateral held
12 in respect to that is a newer addition to that
13 service. But we're seeing 6 million live
14 contracts on a regular basis being -- having their
15 values reconciled centrally.

16 MR. WILL: I guess what would be
17 interesting actually is to see whether the parties
18 agree in terms of the events that trigger the
19 obligation to post collateral (inaudible). I
20 mean, it's something that doesn't happen in the
21 legal agreement area, so to speak. With confirms,
22 you know, you have a reconciliation agreement

1 between the parties, but currently you have --
2 there's not very much translation of the text into
3 data, so it's very difficult for the parties to
4 actually reconcile their particular views.

5 MR. AXILROD: I guess I would take -- I
6 know I'm owned by the community generally, not the
7 banks, but the banks, the investment managers, and
8 so forth and so on, and the custodians, but I'll
9 risk taking a somewhat contrarian view. I'm just
10 going to note that it's not incoherent to report
11 trade level valuations or position level
12 valuations, if you will. That's not incoherent.
13 You know, individual positions are valued.
14 There's a lot of them and, as Raf noted, a lot of
15 people report them anyway to various service
16 providers. Banks report them to their customers,
17 so forth, and so on.

18 You can't deal with collateral that way
19 because collateral relates only to the entire
20 portfolio. So let me just leave it there. It's
21 certainly possible to, you know, sort of report
22 market-to-market for each position that's in a

1 repository. I think there's a lot of use for it.
2 I don't know how -- I'll let others address, you
3 know, whether that should be phase one or phase
4 two.

5 MS. LEONOVA: If I may follow up on your
6 comments. So before you mentioned that when there
7 is a difference between collateral and net
8 exposures, then we have a problem. If you do a
9 de-evaluation on a transactional level, what is
10 the margin of error when we start to pull it all
11 together that gets exposure?

12 MR. AXILROD: Well, I was going to say,
13 you know, you've got the exact same problem with
14 cleared transactions, right? Cleared transactions
15 are valued daily, but the initial margin is
16 collected on a portfolio basis. It's the same
17 thing. And if you want to start looking, when you
18 see something alarming, the first thing you're
19 going to ask yourself -- and you can either call
20 someone up or it could be right at your fingertips
21 -- is, wait, there's a big disparity between the
22 portfolio value and the amount of collateral. The

1 first thing you want to look at is what's making
2 up the portfolio and what's the value of the
3 pieces of the portfolio?

4 MR. TROZZO: I would just comment that
5 -- this is Pat Trozzo from Reval. If you just
6 look at and have data reported on the portfolio
7 level, yes, collateral, I agree, is posted on a
8 portfolio level. But then the Commission or the
9 users of this information would lose some data,
10 would lose some information. You talk about, you
11 know, for an example looking at potentially
12 concentrations. What caused this net exposure?
13 You might find in many cases you could have 1,000
14 transactions between 2 dealers and you might find
15 some small fraction of those make up 90 percent of
16 the exposure. You would lose that if you don't
17 have it on a trade-by-trade basis.

18 MR. TAYLOR: So I think I hear you all
19 saying leave the transaction level valuation
20 reporting that we asked for, add collateral
21 reporting to a collateral SDR.

22 MR. PRITCHARD: Because one opportunity

1 there, David, is that you can cross-check between
2 the two. You could see some of the exposures at
3 the transaction level and see the alleged total
4 exposure on the relationship level.

5 MR. MAGNUS: I think, again, you have to
6 look at holistically how all these different rules
7 fit together. And the way the SDRs are being
8 defined is they're one-sided reporting, not
9 two-sided reporting, the way we report to you
10 today, Raf. And so the valuation -- and there's
11 another NPR out there on portfolio reconciliation
12 which the industry very much supports. We've been
13 pushing portfolio reconciliation for a while to
14 get at the disputes that underlie that.

15 We volunteered and we have already
16 delivered information to supervisors where there
17 are disputes in our portfolio. The regulations
18 will probably require us to do more reporting on
19 that. Our prudential regulators are going to be
20 checking that we are capturing that information
21 because it's now enshrined in Basel III. So
22 there's a whole bunch -- a panoply of things to

1 make sure that these portfolios are accurate and
2 tie-up. The question is what are you looking for?

3 And I want to be careful when you talk
4 about collateral, Peter. There's the exposure,
5 the net exposure, between two parties on a total
6 portfolio basis. There is the gross
7 collateralized exposure, i.e., the exposure I
8 would have to you, Peter, without any credit
9 support. And then there's the amount of
10 collateral supporting that agreement. And there
11 may be a difference because of things in the
12 agreement or whatnot.

13 The point you're making, which I think
14 is really the valid one, banks take risks every
15 day. That is what we're in the business of doing.
16 The question is, are we controlling those risks?
17 Are we managing it well?

18 And a certain amount of risk is okay and
19 you want to have the information available to
20 prudential regulators so they ask the right
21 questions. Had this type of reporting that we
22 have today without these repositories been in

1 place back a couple of years ago, the prudential
2 regulators would have said, my god, you have a
3 huge exposure to AIG, tell us more about it. And
4 we would have had a very interesting conversation
5 and they would have started learning all kinds of
6 interesting things that they wouldn't have been
7 very happy with. And they would have had much
8 more visibility on that long before it became a
9 headline.

10 So I'm in total support, but I'm not
11 sure you necessarily want that market-to-market
12 information on a transactional basis. I don't
13 think you need it. I do think we do need to do
14 reconciliations of portfolios, which we are doing
15 and the industry supports. And I think the most
16 important thing you need to look at from a
17 systemic point of view are the big numbers and use
18 that to drive the conversations that you have with
19 the entities that you're regulating.

20 MR. AXILROD: I guess it depends on how
21 quick a reaction that you want, right? I think
22 that, you know, the more -- if it's not too hard

1 to provide those marks, and it must not be because
2 you're providing them today, you know, I guess the
3 question is, that information could be valuable
4 because you could relate it to, you know,
5 concentrated positions or so forth. And I guess,
6 you know, whether you need it or not, it's likely
7 to be a building block to something else, maybe
8 you could do it later. All I'm saying is it's not
9 incoherent to ask for it at the position level.

10 MS. GOLDMAN: Yeah. The only thing I
11 would argue is, you know, to the extent that it
12 ends up being needed based on sort of triggering
13 --

14 MR. AXILROD: Yeah.

15 MS. GOLDMAN: -- a conversation that
16 that information should be deemed readily
17 available, you know, to the regulators upon, you
18 know, an inquiry, so.

19 MR. AXILROD: Yeah.

20 MR. WILL: Are you saying that they have
21 to come to you or you go to them with the
22 information?

1 MS. GOLDMAN: It would be them coming to
2 us.

3 MR. WILL: Okay.

4 MR. MAGNUS: We go to our regulators
5 every day and give them tons of reports about our
6 positions, our large positions, and a whole bunch
7 of other reports that our prudential regulators
8 get on our credit exposures. So they have that
9 information available.

10 MR. WILL: And I think what's
11 interesting here is there's much talk about
12 exposure, but what I'm particularly concerned
13 about having been a lawyer is potential exposure.
14 You know, what's actually going to happen just
15 around the corner? You as regulators really need
16 to decide what level of interest you have in that.

17 MR. TROZZO: Well, if I may, that's what
18 I was trying to comment on before, defining what
19 you mean by looking at and monitoring and
20 measuring systemic risk. What is being put
21 forward currently in the rules is can it lead to a
22 measure and monitoring of systemic risks? But as

1 it's written right now it's limiting to current
2 exposure and not saying something like "potential
3 future exposure" or some other method. Not that
4 I'm necessarily saying you have to do that, but it
5 is -- right now you are limited to one specific
6 form.

7 MR. MAGNUS: But I would just -- again,
8 I'm not sure Dodd-Frank actually suggests that we
9 would be required to report potential exposure of
10 these data stores. We do calculate it, we do
11 provide that information to our prudential
12 regulators already in numerous forms and it is
13 reviewed again as part of our capital
14 calculations.

15 MR. AXILROD: No, Arthur, I agree. And,
16 again, I'm not suggesting it. All I'm just
17 pointing out, as currently written, you are
18 limited to this one form of exposure. That's all
19 I'm saying.

20 MR. PICKEL: And I would get back, I
21 mean, I don't know the -- what people here may
22 mean by "potential future exposure," that, you

1 know, typically in the Basel context means some
2 estimation of how prospective market price
3 fluctuations may affect your exposure. Mike's
4 talking about, you know, what's embedded in the
5 contract that given circumstances might, you know,
6 spring to present an issue. And there I think
7 it's important for -- again, I get back to the
8 prudential regulators. It's important for them to
9 understand and to grill, frankly, their regulated
10 entity, where do you have these types of triggers?
11 Where do they exist? Who are they -- which
12 counterparties are they with? Where are these
13 areas of potential concern? So that the
14 regulator's alerted to where those things might
15 pop up in the future.

16 MR. WILL: I would prefer instead of the
17 term "grill," perhaps "learning." (Laughter) I
18 mean, a serious point here, there is actually a
19 lot of expertise available around this table in
20 terms of risk management, et cetera, and I would
21 encourage you to learn as much as you can from
22 everybody here and also from the law firms,

1 frankly, because they're looking at these as users
2 as well.

3 MR. PICKEL: I mean grill. (Laughter)

4 MR. TAYLOR: Let me ask one more
5 question as quickly as we can about collateral
6 warehouse, and then just have to ignore the other
7 horse. We'll shift over to master agreements
8 before we're done here.

9 This was the last question on the list,
10 but in this picture of a collateral SDR that we
11 have begun to talk about, are you all envisioning
12 that it's doing anything more than having a
13 warehouse function with this data? And then the
14 question was, if there's more, does that transform
15 that warehouse into some sort of SRO?

16 MS. GOLDMAN: I would just say I think
17 part of the reason why we're kind of labeling it
18 as opposed to a "warehouse," a "repository" is
19 because the expectation that it's not doing a
20 whole lot more than just the sourcing of that --

21 MR. TAYLOR: Okay.

22 MS. GOLDMAN: -- and just the ability to

1 aggregate, you know, across the balances that end
2 up being in there.

3 MR. TAYLOR: So you're not seeing it as
4 an SRO.

5 MS. GOLDMAN: Right.

6 MR. TAYLOR: It's just the data's there
7 and the regulators can't use it.

8 MS. GOLDMAN: Yes.

9 MR. AXILROD: I would say no. You know,
10 it's there. It's going to be a big task to get it
11 there.

12 MR. MAGNUS: I also think there are
13 enough systemic and prudential regulators and, for
14 that matter, as we do push-out under Dodd-Frank,
15 there'll be other SROs and other bodies who will
16 be looking at that data and have an interest in
17 that data, who will look for concentrations and
18 other issues that they might find in that data.
19 So I certainly would not suggest that the
20 repository -- and I would please encourage you to
21 change the terminology and not use the term
22 "warehouse" and use the term "repository." And I

1 would also suggest that you don't just call it
2 "collateral." What we're really talking about is
3 "exposure and collateral" or "valuation and
4 collateral" or something along those lines because
5 it is more than just collateral information that
6 we're suggesting you put in there.

7 MR. TAYLOR: All right. Let's shift the
8 discussion -- we have a bit of time left -- to the
9 master agreement issue. Should there be a master
10 agreement library of some sort? How should we
11 handle -- you know, what information about master
12 agreements do we need and how should we get it?

13 MR. WILL: Lots. I think it's critical
14 that we do actually have a master agreement
15 library. We'll come on to whether it actually
16 should be combined with a collateral library. But
17 the master -- credit report agreements and
18 confirmations constitute a single agreement. And
19 we're coming up to the Oscars, so I'm going to
20 give you a very interesting analogy here.

21 In many ways, an ISDA relationship is
22 like a Hollywood movie. It has a script, it goes

1 through many drafts, it gets heavily negotiated.
2 There's a cast of characters, and there's one or
3 more events that can place these characters into
4 jeopardy and, of course, there are consequences
5 that flow from these events. So let's take a look
6 at the cast of characters. It's more than just
7 the party executing the contract that you need to
8 be concerned about. I characterize these guys
9 really as the parties in the leading role.

10 There are characters in a supporting
11 role that can actually trigger a default or some
12 kind of event in relation to the master agreement.
13 These might be a credit support provider, a
14 guarantor, or someone providing a form of
15 security. And also this category known as
16 "specified entities." These are third-party
17 entities, frequently established in different
18 jurisdictions, whose fortunes are closely
19 correlated to those of the contracting party
20 itself. Now, there might be no specified entities
21 for a particular agreement, but there can be
22 sometimes four or five specified entities and it

1 can go even broader to all affiliates. So if
2 you're a large organization it might that a
3 default on payment of a bond will trigger some
4 pretty significant consequences for you in terms
5 of the master agreement.

6 The point to take away here is the
7 relationship of necessity establishes a complex
8 web of interconnectedness that can extend to
9 entities other than the contracting parties. So
10 if you're going to effectively monitor systemic
11 risk, then you need to know with a great deal of
12 specificity for any given relationship precisely
13 who is connected to whom. Access to master
14 agreement data will provide that particular aspect
15 of transparency.

16 MR. PICKEL: I guess I'd have to say I
17 agree with everything that Mike says and I
18 disagree with his conclusion. I don't know -- I
19 don't see why the need for all that information --
20 and it is very important information and every one
21 of these institutions who engages in derivatives
22 activity ought to be charged with making sure that

1 they have that information, they understand all
2 those details, but I just don't see why that has
3 to be put into some central repository. I don't
4 know what that gains the system. I don't know
5 whether that gains the CFTC in its oversight. But
6 certainly, again, grill or hold people to the
7 charge, they need to have that information and
8 they need to be able to access it and they need to
9 use tools that may be available to them to
10 facilitate the access to that information. I just
11 don't see why that leads -- the need for that
12 leads to a central data repository of master
13 agreements.

14 MR. WILL: I mean -- sorry. There's
15 currently a proposal for an affiliate's database
16 that's going to be accessible, I believe, on a
17 private basis. If you maintain that affiliate's
18 database, if everybody has to report all their
19 affiliations, then you might actually get an
20 inaccurate picture because you may assume that
21 everybody is associated with a particular master
22 agreement when, in fact, it's just a small subset

1 of entities that are associated with that
2 particular master agreement. So if you really
3 want to understand who's connected to who, I think
4 you do need to go to that level. But I do take
5 Bob's point about the effort involved in that.

6 MR. TAYLOR: Since there are two views
7 about that let's explore a little bit. If we need
8 information about master agreements, but we assume
9 for the moment in arguendo that it's too costly,
10 too burdensome to put it all into some master
11 agreement SDR, how do we get that information?
12 Does master agreement information somehow need to
13 flow into a regular SDR with the transaction
14 information or what?

15 MR. AXILROD: I would say no to flowing
16 that in. That's even harder, I think, to have it
17 flow in with the trade information. Because
18 typically today, the way trade information works
19 when it's submitted to a repository or a confirm
20 engine is that one agreement is referred to,
21 sometimes it a master confirmation agreement,
22 sometimes it's a master confirm, it's whatever the

1 lowest level master agreement is. That agreement
2 actually refers then to -- you can chain then
3 through agreements to find all of them.

4 But I guess I agree that, you know, when
5 you want -- when something else is ringing an
6 alarm bell -- you want a pretty good basic alarm
7 system -- when something else is ringing the alarm
8 bell, you know, the market participants should be
9 able at a moment's notice to tell you here's how
10 it works.

11 MR. PICKEL: And, again, I think that
12 that's certainly true, you know. The question's
13 whether that's a before the fact or an after the
14 fact -- or not the fact, but is there a way to get
15 that information when you need it? And do you
16 rely on the fact that you're regulating these
17 entities and you've got requirements for them to
18 have the procedures in place, to understand what
19 their exposures are, and have the details that
20 they could access readily, quickly when you ask
21 them for it about what their contractual
22 arrangements are?

1 MS. LEONOVA: So say it's nice to have,
2 but it's not critical.

3 MR. PRITCHARD: Yeah. As a repository,
4 I think, to agree with Peter, we wouldn't see
5 ourselves as a great channel for you to receive
6 master agreement information. I mean, as Melissa
7 characterized it as an exotic, it's very hard to
8 summarize sort of the primary terms of a master
9 agreement. You either have the detail or you have
10 nothing at all. And as a repository it's kind of
11 far from what we're managing.

12 MR. TROZZO: But I would think at least
13 at a minimum level, you know, one of the first
14 keys of the agreement is to decide with all this
15 data across the various SDRs between two
16 counterparties is it netables and not netables?
17 What is netables? Those little first level
18 definitions are in the agreement. So at a minimum
19 you need that, so you have a roadmap to decide
20 what do you -- and it's tracked against each
21 other.

22 MR. MAGNUS: But, again, we're providing

1 the portfolio level netting --

2 MR. TROZZO: Well, that's assuming if
3 you provide it on portfolio level.

4 MR. MAGNUS: Well, but I'm going to
5 assume that they're going to do that because while
6 a master agreement may specify the netting that is
7 theoretically allowed in the event of bankruptcy
8 of a counterparty, it will only be if the
9 bankruptcy regime in that country allows it that
10 it happens. So one of the other factors, for
11 example, that a firm like mine uses is we have
12 confidence factors around both the ability to
13 perfect a security interest in collateral and the
14 netting opinions for different jurisdictions. And
15 when we have multijurisdictional agreements, which
16 we do frequently with certain types of
17 counterparties --

18 MS. LEONOVA: Arthur, may I clarify? So
19 what you're saying is that your portfolio exposure
20 already is kind of having built-in netting
21 arrangements that are in (inaudible)?

22 MR. MAGNUS: Yes, we've done the math

1 for you taking into factors that are both in the
2 agreement and our business judgment or our legal
3 judgment and the legal opinions that would allow
4 us to manipulate that data.

5 MR. TROZZO: But then --

6 MS. LEONOVA: And what makes you think
7 that you're right?

8 MR. MAGNUS: Well, one, we are
9 supervised and these calculations and whatnot are
10 reviewed on numerous bases. Many of the legal
11 opinions have actually been reviewed and are built
12 by the industry by law firms around the world and
13 are put together by ISDA. But as any of the
14 lawyers in this room would probably tell me,
15 nothing in law is absolutely certain until it gets
16 before a judge, which is why we look at data on
17 both a net and a gross basis.

18 MR. TAYLOR: And if you think it's
19 certain then, you're smoking something.

20 (Laughter)

21 MR. MAGNUS: That's also true.

22 MR. TROZZO: True. But if I -- again, I

1 think we're mixing a little two different things
2 here.

3 MR. MAGNUS: Yeah.

4 MR. TROZZO: I agree. If the rules
5 state that you're reporting valuations on a net
6 portfolio basis between two counterparties,
7 whoever the reporting counterparty is, reporting
8 entity, then that's fine. But if you -- within
9 the rules right now, you're reporting valuations
10 on an individual transaction basis. So if that
11 stands, you need to have some roadmap of deciding
12 what you add and what you subtract. And that's
13 the only point I'll make.

14 MR. WILL: I mean, there's actually an
15 important point here is the existence of a master
16 agreement in the CSA doesn't necessarily mean that
17 that agreement's going to be enforceable. So if
18 you want to add an extra layer of complexity here,
19 you actually start to have to go and look at legal
20 opinions, something very close to my heart.

21 MR. AXILROD: Yeah. I mean, you can
22 sort of imagine a process that might work over

1 time. I mean, if these CSAs are standardized
2 enough and they're enough accepted legal opinions,
3 right, CCPs in some jurisdictions are in the same
4 place as normal counterparties. In the U.S.,
5 they're not -- they all have to get opinions sort
6 of for each jurisdiction that their counterparties
7 are in. All the banks get opinions with respect
8 to each jurisdiction that their counterparties are
9 in. A lot of these are published. So if you get
10 to sort of, you know, a set of standard CSA
11 positions and standard sort of jurisdictions in
12 which we're not too worried about closeout risk
13 and the courts won't allow you to net, then
14 there's something useful in understanding where,
15 due to some relation or other, somebody isn't
16 following that standard. It's a good client of
17 mine; I'm not following the standard. I'm talking
18 off the top of my head, but I think it requires a
19 lot more information gathering even to know how
20 you could make this useful.

21 MR. PICKEL: I would point out we have a
22 very good model for this. It's the Basel process.

1 In the early 1990s, they recognized closeout
2 netting under the ISDA contract -- well, not the
3 ISDA contract, under an industry master agreement,
4 so long as there were legal opinions obtained and
5 updated annually. And we've provided access to
6 those opinions to many regulators around the
7 world; happy to do so with the CFTC and the SEC.
8 But the regulators rely on the banks to do the
9 analysis on the legal opinions subject to the
10 regulators again questioning them, probing them,
11 grilling them, and asking them why they feel in
12 that particular circumstance, with that
13 counterparty and that jurisdiction, they feel that
14 that opinion is of a sufficient level of certainty
15 that they can net. So that process has worked.

16 And, I think, let's reflect on the fact
17 that whatever the situation with AIG was, this
18 architecture is there, it works. Yes, there are
19 questions in terms of making sure that you've got
20 the legal opinions. And we're happy to, you know,
21 work with the Commissions to help them understand
22 what exists and how it has worked very well and

1 how it can work, you know, well under the new
2 structure going forward.

3 But I think if we start -- Mike, if we
4 start saying, well, you know, the agreement might
5 be, you know, subject to -- you got to -- it may
6 be subject to question until you get all these
7 legal opinions, that's all built in already.
8 Let's not suggest that there's some question as to
9 the enforceability of these contracts. Otherwise,
10 we've got a serious, serious problem here, Mike.

11 MR. WILL: I'm not saying that, Bob.
12 Believe me, I'm not saying that.

13 MR. PICKEL: I'm sure you're not because
14 you've worked too closely with us over the years.

15 MR. WILL: Yes. No, absolutely, and I
16 designed --

17 MR. PICKEL: But let's not suggest that
18 there's some doubt.

19 MR. WILL: No, I'm not doing that.

20 MR. TAYLOR: It's -- I'm trying mostly
21 just to ask questions, but let's put it this way:
22 If you assume for a minute -- and I do -- if you

1 look at the recordkeeping rules, basically they
2 say you have to keep records of anything that has
3 anything to do with your business in swaps, and
4 you have to be able to produce them when asked --
5 a fair enough summary -- that would mean master
6 agreements are available to regulators for the
7 asking if something else says to them, gee, we
8 need to go look at this master agreement. Does
9 that sound satisfactory to you all as opposed to
10 getting them all in a warehouse somewhere?

11 MR. MAGNUS: Yes. I would say yes and I
12 would say we actually have those requirement today
13 because there are other rules, at least for
14 dealers, that require us to keep documents and
15 whatnot for periods of time. And so we have them
16 and we do produce them for our prudential
17 regulators today and we could product them for
18 you.

19 MR. WILL: I should say that'll be a lot
20 of pages that you'll have to review, so you won't
21 be able to access the data immediately. And the
22 one thing you might want to think about is if

1 you're dealing with a dealer in distress, for
2 example, and you have to come in and regulate that
3 particular entity, you're going to be reading a
4 lot of paper. It might be better to have the data
5 available even if it's not reported to you in that
6 particular circumstance.

7 MS. GOLDMAN: Yeah, I would just add
8 you're reading the data and then you're
9 interpreting the language as well in terms of, you
10 know, what the representation means.

11 MR. TAYLOR: Maybe we'll send the
12 prudential regulators.

13 We've bled a little bit into our Q&A
14 time, which, again, I don't mind because it's not
15 an active question- asking audience. But I will
16 say if anyone's got any questions for this panel
17 or that you'd like us to kick around, please feel
18 free to come to a mic. There are a couple out
19 there. Anyone?

20 Is there more?

21 MS. LEONOVA: Okay. Any final comments?
22 Any burning issues that you want to utter right

1 now? Of course, Mike, you have it. (Laughter)

2 MR. WILL: Actually -- I apologize. I
3 always have to have the last word. What I would
4 actually like to just pose is whether it actually
5 would be a good idea to combine the collateral
6 warehouse with the master agreement warehouse. I
7 personally think that in certain circumstances the
8 credit support agreement is actually deemed to be
9 part of the master agreement, and consideration
10 should be given to actually merging the functions
11 together.

12 MR. TROZZO: I agree.

13 MR. MAGNUS: Again, I think there are
14 terms that are in agreements that are very hard to
15 quantify and put in there, and so you'll never get
16 a complete characterization that you can
17 standardize and put into a repository and know
18 that if you're looking at it in the repository
19 with the attributes that were specified, that you
20 have the correct interpretation and there isn't
21 something else. These are bilateral contracts
22 between people. And yes, they do follow a

1 standardized template, but they are allowed to --
2 and they do -- contain customized terms.

3 And I will tell you that one of the
4 several functions that I do at JP Morgan is I run
5 our credit risk middle office and I support a lot
6 of our credit executives. And the moment a name
7 gets into distress we have a procedure that we
8 follow. And one of the first things we do is we
9 pull the master agreements and get the lawyers to
10 look it over to see what's in it. And we do not
11 rely on the (inaudible) that we've done of that
12 agreement because it's just too much of a risk at
13 that moment in time when that event occurs to rely
14 on any interpretation that might have been done
15 three years ago.

16 So I think that the right approach --
17 and certainly at the onset of this so as not to
18 create a burden, and we have enough things that we
19 have to do -- is to focus on that which we have to
20 do, get the high-level information to sound the
21 alarm bells as a first step. And we can come back
22 and we can explore with you, you know, when we're

1 all a little bit more calm and not writing -- I
2 forget how many rules are being written, and we're
3 implementing those rules. We can then go back and
4 calmly figure out what we want to do.

5 I also think, in a couple years, the
6 landscape is going to look very different than it
7 does today. There'll be a lot more in the
8 clearing sector, which will be governed by much
9 more standardized agreements because of the very
10 nature of clearing than the bespoke agreement.
11 And that might yield different risks or different
12 things that we might think are important. And so
13 we shouldn't jump the gun and do that.

14 I think we definitely have to recognize
15 that master agreements exist; that's how we define
16 our portfolios. But beyond the existence of the
17 master agreement, I think you need to rely on, in
18 a crisis, getting those master agreements and
19 require, you know, the prudential regulator firms
20 will look at it. And there are technologies
21 available that, theoretically, look at this stuff
22 and get it in different ways. But I still think

1 nothing is going to change that in a crisis we're
2 going to have a lawyer review the agreement.

3 MR. TAYLOR: If nobody else has anything
4 substantive, I do have one thing I'd like to close
5 with, and I address this -- there are people in
6 the audience who are on panels and -- all of you
7 in the audience for that matter, but I
8 particularly address it to the panel. We've had
9 this conversation with a few people during the
10 breaks, but I just thought I would emphasize it.
11 It seems so obvious to us, but you all may not
12 think of it this way.

13 The comment period for our rule closes
14 on February 7, and the effect legally is that
15 after February 7 we go behind a curtain and we
16 can't talk to you anymore. So if there is any
17 input that you would like to give us beyond what
18 you've said here today, please send us comment
19 letters. I mean, feel free. I mean, I'm asking
20 for an increase in our workload, but it's going to
21 actually be very valuable. I mean, no matter how
22 valuable it is, after February 7 we can't get it,

1 so I encourage you. You have positive/negative
2 comments about, you know, any of the issues we've
3 talked about today, please do send things in.

4 MR. WILL: Well, I, for one, now know
5 who the Wizard of Oz is.

6 MR. TAYLOR: I'm sorry?

7 MR. WILL: I, for one, now know who the
8 Wizard of Oz is.

9 MR. TAYLOR: Pay no attention to the man
10 behind the curtain, yes.

11 MS. LEONOVA: Again, I thank you very
12 much for making this trip to Washington, D.C., in
13 such horrific weather. We greatly appreciate your
14 time and look forward to hearing from you again.

15 MR. TAYLOR: Thank you all.

16 (Whereupon, at 4:55 p.m., the
17 PROCEEDINGS were adjourned.)

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I, Christine Allen, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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