



August 21, 2017

Via Electronic Submission

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Re: Request for Comment on Division of Market Oversight (“DMO”) Swap Data Reporting Review

Dear Mr. Kirkpatrick,

Chicago Mercantile Exchange Inc. (“CME”) appreciates the opportunity to comment on the Division of Market Oversight (“DMO”) of the Commodity Futures Trading Commission’s (“CFTC” or “Commission”) comprehensive review of swap data reporting and associated “Roadmap to Achieve High Quality Swaps Data” review process (the “Proposal”).¹ We commend the Commission for its continued focus on improving the current swap data reporting regime to ensure that it receives accurate, complete, and high-quality data on swaps transactions for regulatory oversight purposes.

The Proposal seeks to identify ways the Commission might streamline current reporting flows, reduce message traffic and right-size the number of required data elements for reporting. These are laudable goals and CME shares them. In our view, there is a very straight forward way to achieve these goals for cleared swaps, which represent a growing segment of reported data. In short, we urge the Commission to consider amending current reporting requirements to assign all reporting obligations for swaps that are intended to be cleared to the derivatives clearing organization (“DCO”) that accepts any such swap for clearing. CME has consistently called for this approach since the outset of reporting precisely because it would significantly simplify reporting requirements, leverages mature data quality control infrastructure, and is the best way to give the Commission access to high quality cleared swaps data.²

The argument for DCO reporting on all related components of cleared swaps is simple and strong. First, a swap that is intended to be cleared when executed must be accepted for clearing by a DCO – if it is not accepted for clearing it is void. Given this legal reality, swaps that are intended to be cleared should not be reported and subsequently publicly disseminated until they are accepted for clearing and thus legally binding. Second, the DCO that accepts a swap that is intended to be cleared when executed has all the necessary details related to such “alpha” swap which can continue to be represented as a separate record or the data added to the cleared swaps. This same DCO will also be the only entity that possesses all relevant data elements regarding the novation of that “alpha” swap and the subsequent existence of the resulting “beta” and “gamma” cleared swaps.

This approach would give the Commission the highest quality data for cleared swaps. The data would come from the single definitive source for cleared data – the clearinghouse. Assigning reporting duties to the DCO for all three legs, at the point of acceptance for clearing, would ensure all three legs are housed in a single data set. This would free Commission staff from the tedious and unnecessary exercise of reconciling cleared swap data between different data warehouses. Finally, DCO reporting at the time intended to be cleared

¹ See “General CFTC – Comments for DMO Swap Data Reporting Review,” Release PR7585-17; CFTC Staff Letter 17-33 (July 10, 2017).

² See, e.g., CME comment letter to original proposal of Part 45 and Part 43 dated February 7, 2011; review of cleared swap reporting requirements dated May 27, 2014; proposed amendments to swap data recordkeeping and reporting requirements for cleared swaps dated October 30, 2015.

swaps are accepted for clearing would eliminate the possibility that a swap is reported to the public immediately after execution but before acceptance for clearing is later declared void.³

Another benefit is that the approach would massively simplify reporting flows for the industry – hundreds of reporting counterparties that are currently tasked with reporting intended to be cleared “alpha” swaps would be reduced to a limited number of DCOs reporting cleared swaps to SDRs. Reducing the number of reporters would immediately lead to higher-quality data and would simplify reporting, which are both goals stated in the Commission’s Proposal. If the DCO reported all legs of swaps that are intended to be cleared, the rest of the industry in a single stroke would be excused from this task and thereby relieved of having to expend resources on unnecessary and redundant reporting chores. Although there would be a one-time cost impact on firms to support this move, there would be long-term savings of all future trade repository and internal operational costs.

These industry-wide efficiency savings (and data quality enhancements) could be implemented quickly. We think relatively minor rule amendments can be fashioned to implement our approach. These rule amendments could simply discharge current reporting counterparty reporting obligations at the point of execution for swaps that are intended to be cleared if (and when) the executing parties submit a matched swap for clearing with a DCO. These amendments would also remove the process whereby the DCOs need to send termination messages to the original swap SDR, which would reduce costs as well as complexity of reporting. These amendments could be paired with corresponding changes to make clear that the DCO that accepts a swap for clearing would be responsible for all current reporting obligations for that swap (and the resulting cleared swaps) beginning at the point in time that it accepted the swap for clearing.

In addition to seeking ways to streamline and simplify reporting, the Proposal also raised the prospect of re-evaluating the Commission’s current “real-time” approach to more closely align its reporting requirements with other regulatory derivatives reporting regimes that require reports on a T + 1 basis. We support this instinct and believe that adjusting reporting timelines back in this fashion to match other global regulatory standards would be beneficial simply because it is worth harmonizing global standards to the maximum extent. We also think this approach could lead to improved data accuracy and reduced reporting complexity. Moving to day after reporting would allow time for errors or omissions in swaps transactions to be corrected through the confirmation process prior to public dissemination. On balance, we don’t believe the costs of trying to achieve immediate reporting have been justified due to their impact on data quality – a fact borne out by the simple premise of the Proposal, that is, a recognition that we as an industry need to evaluate ways to improve the current status quo. There is more to be gained by conforming with global standards and simplifying processes.

Finally, as addressed in a separate comment letter we have signed along with other swap data repositories, there are also other issues that we think the Commission should address as part of this process including:

- CME is supportive of leveraging existing SDR validation processes to improve consistency and completeness of data reporting. However, we recommend waiting to implement minimum validations and processes for rejecting swap data reports with missing or invalid data until global harmonization of data fields efforts has occurred as it would be uneconomical and inefficient to have SDRs and market participants implement such changes until that time.
- CME believes that the requirement to confirm accuracy of data should sit with the parties best positioned make such a confirmation. As SDRs are not a participant in transactions in any capacity, SDRs are not best positioned to know whether data is complete and accurate. Thus, CME believes that 17 C.F.R. § 49.11 should be removed in its entirety.

³ Under current Commission guidance and requirements, the time that elapses between the execution of a swap that is intended to be cleared and the time that same swap must be submitted for clearing is relatively brief. In our view, moving alpha reports for intended to be cleared swaps from the point of execution to the point of acceptance for clearing would not diminish the value of reports from the public’s or the Commission’s point of view.

- Further, CME believes the obligation to confirm accuracy of data should sit with reporting counterparties, as they are typically the most sophisticated and have the best means to do so. We are supportive of leveraging existing obligations, such as the portfolio reconciliation exercises required pursuant to 17 C.F.R. § 23.502, to meet this responsibility in a cost-effective manner. The required portfolio reconciliation exercises are an existing mechanism used by the counterparties to confirm the accuracy of the terms of a swap identified as part of a portfolio reconciliation. While we acknowledge that Part 23 does not cover swaps to which a Swap Dealer is not a counterparty, we believe it would accomplish the goal of confirming accuracy of the material terms of swaps that are likely to have the largest impact on systemic risk within the financial system, while at the same time minimizing the burden on market participants and accomplishing the Commission's goal of data accuracy and completeness.
- It is CME's belief that requiring some type of reconciliation of the data and a separate requirement to submit Confirmation Data is redundant. If, for example, the Commission were to leverage the reconciliation required pursuant to Part 23 as suggested above, the data to be reconciled pursuant to Part 23 is more broad than the Confirmation Data to be reported, which includes only "the terms of a swap matched and agreed upon by the counterparties in confirming the swap."⁴ Moreover, reporting counterparties, swap execution facilities, designated contract markets, and DCOs maintain an obligation to report swap continuation data "in a manner sufficient to ensure that all data in the swap data repository concerning the swap remains current and accurate, and includes all changes to the primary economic terms of the swap occurring during the existence of the swap."⁵ Thus, the requirement to report Confirmation Data creates redundancy and does not seem to provide additional value.
- While CME is supportive of the Commission's efforts to streamline reporting workflows, CME requests that SDRs retain the flexibility to accept single messages combining Part 43 and Part 45 data and/or separate messages for Part 43 and Part 45 data.
- To remove uncertainty as to what must be reported, CME recommends listing all required fields in the Appendices to Parts 43 and 45 so that there is a single place to look to identify reporting requirements.
- CME agrees with the Commission's Proposal to reduce the number of fields currently reported and instead focus on the key data fields that allow the Commission to perform its regulatory oversight functions. CME agrees that there should be efforts to harmonize data fields with foreign regulators, but also recognizes that some elements may differ depending on the Commission's and each jurisdiction's needs.

We thank the Commission for initiating this important process and giving us the opportunity to comment.

Sincerely,



Jonathan Thursby
President, CME Global Repository Services

⁴ See 17 C.F.R. § 45.1.

⁵ See 17 C.F.R. § 45.4(a).