

July 26, 2019

Mr. Christopher Kirkpatrick
Secretary of the Commission
U.S. Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, DC 20581

RE: RIN Number 3038-AE32

Dear Mr. Kirkpatrick,


Chatham Financial (“Chatham”) is pleased to provide comments in response to the notice of proposed rulemaking, “Certain Swap Data Repository and Data Reporting Requirements”¹ (“Proposal”), from the U.S. Commodity Futures Trading Commission (the “Commission”). Chatham supports the Commission’s desire to improve the accuracy of data reported to, and maintained by, swap data repositories (“SDRs”). Chatham believes the efforts undertaken in support of these goals will be consequential in achieving key reform objectives underpinning Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”)—in particular, increasing transparency in the OTC derivatives market and mitigating systemic risk.

As a global financial advisory services and technology solutions firm, Chatham specializes in the debt and derivatives markets. Advising and providing services to more than 2,500 clients annually on interest rate, currency, and commodity hedging, Chatham is a global firm with operations in the United States, Europe, Australia, and Asia. Chatham is currently engaged as a third-party reporter for over 200 clients who have Dodd-Frank reporting obligations. In addition to reporting transactions on behalf of our clients, Chatham also assists globally active swap dealers in assessing and improving their compliance with swap data reporting requirements. Our comments reflect our comprehensive expertise supporting both buy and sell side market participants with their swap data reporting obligations.

Exclusion of Non-Reporting Parties from Proposed §49.11

Chatham supports the Commission’s proposal to repeal the requirement of non-reporting counterparties to monitor and review the accuracy of swap data reporting done on their behalf. As stated in our previous letter to the Commission, for bilateral OTC derivatives, all parties to a transaction generally must have processes in place to confirm and capture transaction terms in their systems. Prior to execution, parties will regularly prepare and exchange term sheets or bid packages to ensure each party understands and agrees to the transaction terms. Once a trade is executed, parties carefully review transaction confirmation documentation, whether through an electronic platform or an issued paper confirmation, to ensure the details of the executed transaction align with the pre-trade term sheets. In the absence of such a process, market participants would be subject to potential disagreements on payment amounts and other trade economics. In the event there are disagreements

¹ 84 FR 21044 (May 13, 2019).



during the existing confirmation process, there are established procedures for resolving and correcting them.

These existing confirmation processes, combined with the fact that only one party has a direct reporting obligation, mean that there is little value in requiring non-reporting parties to independently undertake the data verification process in §49.11. Considering the burden placed on end users for having to undertake data verification process outline in §49.11, the minimal value added supports the Commission's proposal to repeal the requirement. Chatham believes that the responsibility for the accuracy of submitted data should rest solely with the reporting party to a trade—typically a regulated entity that is already regulatorily accountable for the accuracy of its submissions.

Comments on Process in Proposed §49.11

Chatham appreciates the Commission's efforts to amend part 49 of the Commission's regulations to resolve reporting challenges associated with certain swap data recordkeeping and reporting obligations. However, the proposed amendments to §49.11 still place an unnecessary burden on reporting counterparties who are not swap dealers, major swap participants, or derivatives clearing organizations.


The Commission has proposed that reporting counterparties must verify monthly open swaps reports from SDRs. Chatham believes that there are less burdensome ways for the Commission to improve the accuracy of swap data reporting in a manner that achieves the Commission's objectives while lowering the burden for all reporting counterparties, including non-swap dealers and end users.

In the Commission's *Road Map to Achieve High Quality Swaps Data* ("Roadmap") published on July 10, 2017, the Commission outlined two tranches to the review of swap data reporting. Tranche 1 involved an SDR Operations Review which had two parts: 1) *SDR Validations*, and 2) *Ensuring Counterparties Confirm Accuracy of SDR Data*. Tranche 2 involved a review of multiple other aspects of swap data reporting, including streamlining workflows, focusing on key data fields, harmonizing data elements, proposing detailed technical specifications, re-evaluating reporting deadlines under Part 45, and increasing the utility of the Real-Time public tape.²

Chatham believes all elements of the Roadmap need to work together to achieve high-quality swaps data. The two tranches of the Roadmap, as well as the individual portions of each tranche, are all important for success. As a result, comments on any individual rulemaking such as the current Proposal may be incomplete, considering the overall goal of improving data quality. Where appropriate, we will reference aspects of anticipated future rulemakings related to implementation of the goals of the Roadmap in order to more fully address the changes necessary to improve data quality.

The Commission expressed that they anticipate re-opening the comment period for the current Proposal when further related rulemakings are published and that each rulemaking would have the same compliance date, regardless of when each rulemaking is released in final form. Chatham expects to have comments on those proposals as well. Chatham's comments in this response focus on the Proposal's intended coverage based on the Roadmap (i.e., Tranche 1, *SDR Operations Review*). Though

² *Roadmap to Achieve High Quality Swaps Data*, Joint Statement of Acting Chairman Christopher Giancarlo and Commissioner Sharon Y. Bowen (July 10, 2017).



Chatham is limiting the scope of our current comments for this Proposal, we may revisit our comments based on future related rulemakings the Commission may issue, if warranted.


The current Proposal focuses on the *Ensur[ing] Counterparties Confirm Accuracy of SDR Data* portion of Tranche 1 from the Roadmap and does not make substantive changes to the *SDR Validations* portion of Tranche 1. The *SDR Validations* section of the Roadmap expressed the Commission's intent to: 1) leverage existing SDR validation processes to improve data reporting consistency and completeness, 2) work with SDRs to set up processes for rejecting incomplete or invalid swap data reports, and 3) identifying an initial set of validation criteria, including, for example, blank/not blank, defined allowable values, and defined formats where appropriate. Reconciliations are a key tool for ensuring that swap data reporting is accurate. However, we believe that requiring SDR's to validate key data fields is a more important, efficient, and effective tool for further ensuring high quality swaps data.

Most, if not all, firms reporting swap data to SDRs rely heavily on the validation screens applied by SDRs to incoming report messages. In addition to Dodd-Frank reporting obligations, each firm generally has reporting obligations under multiple other jurisdictions including EMIR, ASIC, Canada, MAS, etc. With so many varied regulations to adhere to, SDR validations are typically a critical tool in creating, testing, and refining their swap data reporting programs (i.e., when messages are rejected by the SDR, a firm knows that there is missing or incorrect data that they must fix but when messages are accepted by the SDR, firms often view this as an indication that the submitted data was complete and compliant).

Subsequent to the creation, testing, and refining stages, firms use SDR validations on a day-to-day basis to monitor ensured compliance of their swap data reporting programs. The acceptance or rejection of submitted messages each day helps alert firms to potential instances of failure to meet reporting requirements. Having simple SDR validations such as checking whether mandatory fields required by Parts 43 and 45 are populated can be very effective at increasing the quality of swaps data being reported. Recent testing conducted by Chatham during June 2019, confirmed that some SDRs allow many fields which are deemed mandatory by Part 45 to be left empty without receiving a rejection message from the SDR.³ This means that swaps can be reported to and accepted by some SDRs without including a significant portion of Part 45 required data points.

Though industry-wide statistical data on the population of these fields is not publicly available, Chatham can attest anecdotally that the lack of validation at some SDRs led to significant problems with the completeness and accuracy of swap data being reported, particularly in the beginning stages of swap data reporting under Dodd-Frank. While most firms have since been able to correct many of these data issues for current submissions, Chatham believes that requiring SDRs to implement basic validations around data fields required by the Commission to be reported would be highly beneficial to improving and maintaining high-quality swaps data. For example, if a firm is currently submitting complete data to the SDR but then implements a new software or code release which inadvertently

³ Examples of mandatory fields that could be left blank and still have a trade accepted included: the Unique Swap Identifier, execution venue, execution timestamp, clearing indicator, indication of collateralization, an indication of whether the clearing requirement exception in CEA section (2)(h)(7) was elected, the identity of the counterparty electing the clearing requirement exception in CEA section (2)(h)(7), block trade indicator, an indication of whether the reporting counterparty is a swap dealer or major swap participant, an indication of whether the reporting counterparty is a financial entity, an indication of whether the reporting counterparty is a U.S. Person, as well as the swap dealer, MSP, financial entity, and U.S. Person status of the other counterparty.



causes a mandatory field to be left blank, they may be completely unaware there is a problem because the SDR does not reject the messages. With appropriate validations in place for mandatory fields, this scenario would not exist (i.e., the inadvertent change would have been brought to the firm's attention because the messages would have been rejected by the SDR due to a mandatory field having been left empty).

In addition to simple blank/not blank validations, Chatham believes that other validations, which would be derived from the reporting requirements issued by the Commission, should be required of the SDRs where they can help ensure high-quality swaps data. These validations could include validations around data type (i.e., fields which require a text value will be rejected if populated with a numerical value), validations around allowable values (i.e., *yes/no* or *true/false* value fields should be rejected if values other than yes, no, true, or false have been used), etc.

SDRs look to the Commission for guidance with regard to swap data reporting. In particular, over the past two years DTCC has been involved with a phased implementation of a significant update and revamp of their swap data reporting systems ("Re-Architecture"). The first phase of the Re-Architecture was implemented in 2017. Much of that initial implementation coincided with EMIR RTS 2.0, a major update to reporting requirements and technical specifications implemented by ESMA. These changes included optional updates to reporting templates (firms submitting in CSV format could now choose to use a single template for all asset classes and the template had significantly fewer fields than any of the previously mandatory asset class specific templates) as well as updated validations for certain fields required by ESMA, whereby messages would be rejected if certain fields were left blank or were not populated in the precise manner required by ESMA. Most recently on March 28, 2019, DTCC communicated the following to its clients:


Dear Valued Client,

As you may know, DTCC's Global Trade Repository (GTR) business is redesigning its service platform to significantly improve the client experience and reduce the technology and operational cost of support for DTCC and its clients. This re-architecture program focuses on enhancing the performance and control environment of the GTR platform as well as further standardizing, where possible, global functionality.

The re-architecture initiative launched in 2017, first with Canada Public Price Dissemination (Canada PPD) followed by Hong Kong reporting and then Europe (for European Markets Infrastructure Regulation or "EMIR"). Then it moved to the Asia-Pacific business in 2018 (for Australian Securities and Investments Commission or "ASIC" and the Monetary Authority of Singapore or "MAS" reporting). The North America phase will be completed in October 2020 (for U.S. Commodity Futures Trading Commission or "CFTC" and Canada reporting).

The revised go-live date for North America reflects our goal to combine the platform updates with the CFTC rules rewrite. The rules rewrite draft is anticipated to be published in May 2019. Message Specifications will be published in August 2019 reflecting the fields in the CFTC rule changes.

Starting in October 2019, clients can leverage the Validation Rules Engine (VRE) simulator for pre-user acceptance testing (UAT). The VRE simulator is a web-based application built to



provide users with a self-servicing utility. The utility performs submission-validation and displays the results of the validation and message transformation, enabling clients to verify their submissions against the configuration of business rules. Full UAT will begin in April 2020.


Based on the above communication, it appears that DTCC is waiting for the Commission to issue new rules before implementing its Re-Architecture for Dodd-Frank reporting. The Re-Architecture is intended to simplify and standardize reporting requirements, as well as implement new or revised rule requirements issued by the Commission. It is an opportune time for the Commission to include requirements for SDR validations in its proposed amendments as originally outlined in the Roadmap. By including such requirements, the Commission will be taking a critical step available toward improving the quality of reported swap data.

With regard to the current state of swap data reporting, Chatham agrees with Commissioner Stump's statement of concern regarding the Commission's "Solution in Search of a Problem." Under current Commission requirements, no definitive way exists to determine how many corrections are being made by a reporting counterparty to an SDR. While Part 43 requires that firms indicate whether data being reported represents a correction (i.e., an indication that the swap transaction and pricing data that is being publicly disseminated is a correction to previously publicly disseminated swap transaction and pricing data that contained an error or omission), no equivalent requirement exists under Part 45.

Reporting formats and requirements are not standardized across SDRs. Further, reporting processes within a given SDR can vary from asset class to asset class or may depend on the type of message being submitted. As a result, there are multiple methods for indicating whether a message submitted for a swap represents a correction. These methods are generally not mandatory (i.e., a correction to swaps data can be submitted without explicitly indicating that the submission is a correction). Chatham agrees with Commissioner Stump's assertion that "it is impossible to know for certain that an RCP was intending to correct erroneously reported data based on the data schema utilized by SDRs to address changes in swaps data—which include actions such as 'snapshot,' 'amendment,' and 'modify,' but may not actually include a category of 'correction' messages."

For this reason, Chatham would recommend clarifying the requirements for when an SDR will accept a swap data message that is a correction. The Commission should require the explicit population of a field which identifies whether a message submitted to the SDR represents a correction and instruct SDRs to reject noncompliant messages. This will have the added benefit of providing the Commission with data to determine the number of corrections SDRs are receiving and help the Commission determine whether further regulation is required. Requiring this data field to be populated would also align swap data reporting under Dodd-Frank with global regimes, such as EMIR, which require an Action Type field to be populated before an SDR will accept a submission.

Chatham believes that the cyclical data verification process outlined in the Proposal will not improve data quality as envisioned by the Commission. As currently proposed, reporting counterparties would verify the information submitted from their systems through a report provided by SDRs. In this scenario, reporting counterparties are burdened with verifying their own data within either 24 or 96 hours of receipt of the verification request, depending upon the reporting counterparty's regulatory status. While Chatham does not believe that reporting counterparties are intentionally reporting inaccuracies in swap data to SDRs, there are likely unrecognized errors which are occurring. Chatham



believes that increased data validations at the SDRs will be more successful at decreasing general data inaccuracies than a reconciliation process. While reconciliations are useful for ensuring that each and every reportable trade has been submitted to the SDR and is appearing in the SDR records viewable by the Commission, they are a less efficient tool for ensuring the accuracy of data contained in individual fields when compared to data validations on each message submitted by a firm to the SDR.

Factors such as transforming data from firm's proprietary formats to the format required for submission to the SDR as well as from the SDR's submission format to the format the SDR uses for storage of position data can make true reconciliations (i.e., reconciling a firm's books and records to the SDR position data) difficult and impractical. Errors in the initial trade record are likely to be carried through the subsequent transformation(s). As Commissioner Stump noted:

[I]f the original data set utilized by the RCP contains an inaccuracy, the Proposal could simply impose a futile exercise based on circular logic. The end result of the new burdens placed upon RCPs and SDRs would merely be a false positive in this scenario. If the RCP's data is inaccurate in the first place, then the Proposal would be successful only in making swap data reporting more complicated and expensive, without actually improving the accuracy of the data reported to the SDR.⁴

While Chatham believes that requiring basic reconciliations to ensure that all reportable trades executed by a firm have been reported and are reflected in the SDR's position data is reasonable, requiring field by field reconciliations would be inefficient and less effective than implementing validations at the point data is transmitted to the SDR in preventing data inaccuracies.

If the Commission chooses to finalize the verification process outlined in proposed §49.11, the verification should be limited to open swaps reports as currently proposed. The Commission should not expand the scope of the verification process to include all swap data messages. The verification of historical data is difficult for SDRs, who would be required to change their data maintenance practices to keep swap data accessible and visible to reporting counterparties for a longer period and for reporting counterparties, whose reporting systems are predicated on the need to only report and review open swaps data. Expanding the verification process to all swap data messages would exponentially increase the burden of such a process on the market.

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Chatham thanks the Commission for considering these recommendations and is available to answer any questions it may have. Please contact Laura Grant, Chief Operating Officer, (lgrant@chathamfinancial.com, 484-731-0006) or Heather Fritzingler, Director of U.S. Transaction Operations and Regulatory Compliance, (hfritzingler@chathamfinancial.com, 484-731-0014) with any questions.

⁴*Certain Swap Data Repository and Data Reporting Requirements Appendix 4—Statement of Concurrence of Commissioner Dawn D. Stump* (May 13, 2019).