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CC:
Smt. Nanda Sameer Dave
Chief General Manager, DPSS

Shri. R. Subramanian
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29 April 2016

Dear Sirs,

Re: Industry Associations Recommend Global Adoption of Entity-Based Reporting ¹

We trust that you are well. ISDA would like to draw your attention to an important principles paper which was published as ISDA began its 31st Annual General Meeting in Tokyo, in partnership with 12 other trade associations, which recommends an entity-based approach to derivatives trade reporting in a bid to cut costs and complexity for end users.

The paper argues that global adoption of an entity-based reporting framework – where sole responsibility for reporting is assigned to one counterparty via an automated hierarchy process – would help promote greater consistency in reporting standards and would lead to improvements in data quality. The entity-based approach would also significantly reduce the operational complexity associated with current reporting requirements, cut costs, and eliminate the reporting burden on end users. In Europe, for example, the aggregate expenditure for end users that have implemented the dual-reporting framework is estimated to be in excess of €100 million.

The associations that have published the paper alongside ISDA are: the Alternative Investment Management Association, the Association of Corporate Treasurers, the Australian Financial Markets Association, the US Chamber of Commerce's Center for Capital Markets Competitiveness, the Coalition for Derivatives End-Users, the Global FX Division of the

¹ <http://www2.isda.org/news/industry-associations-recommend-global-adoption>

Global Financial Markets Association, ICI Global, the Investment Association, Managed Funds Association, the US National Association of Manufacturers, the Securities Industry and Financial Markets Association's Asset Management Group, and Pensions Europe.

Trade reporting is a key element of the derivatives market reforms agreed by the Group-of-20 (G-20) nations in 2009. Mandatory reporting regimes are now in place in most financial centers, but a lack of consistency in the reporting rules between jurisdictions and variations in data reporting formats have hampered the ability of regulators to aggregate exposures and spot possible systemic risks – a key objective of the G-20 derivatives reforms. Some jurisdictions have opted for dual-sided reporting, with the rationale that requiring both parties to a trade to report will improve the quality of the data. In reality, pairing rates at trade repositories used in dual-sided regimes are around 60%, well below confirmation execution rates using existing confirmation processes. A streamlined, globally consistent entity-based reporting framework would help improve the quality and accuracy of reported data, the paper argues.

The paper recommends the following steps:

An entity-based reporting framework should be adopted across jurisdictions

Dual-sided reporting is complex, costly, and has not provided demonstrably improved levels of data quality. An entity-based reporting framework, where sole reporting responsibility is assigned to one counterparty (typically a dealer or central counterparty), can provide the requisite level of trade information and reduce burdens on derivatives end users.

Existing processes, and not dual-sided reporting, should be used to identify mismatches in trade terms

Execution and confirmation processes already serve an established and legally binding role in rooting out discrepancies in trade terms. Using trade reporting for this process is unnecessary, ineffective, and adds further complexity to the process.

A tie-breaker methodology for determining the responsible reporting party should be implemented consistently

The associations believe that the reporting entity and unique trade identifier generating party for any specific trade can be successfully determined by application of a reporting party hierarchy and 'tie-breaker logic'. ISDA has developed an industry-agreed tie-breaker logic that is specific to each individual asset class. A dealer will always be the reporting entity when transacting with a non-dealer counterparty, and two dealers will apply the tie-breaker logic to determine which firm will act as the reporting party when executing a trade between themselves.

Legal responsibility for non-reporting counterparties to verify trade reports should be removed

Some jurisdictions that assign reporting responsibility to one counterparty still require the non-reporting counterparty to verify the accuracy of the data, supplement the data or provide information associated with the trade, such as whether it is required to report or not. This is dual-sided reporting in disguise, and places unnecessary cost burdens on end users.

Greater focus should be placed on global data harmonization efforts

Entity-based reporting can only be fully successful within a global, fully harmonized reporting system. Global regulators should align their reporting rules, and data fields should be based on existing market practices. Data harmonization should be led by CPMI-IOSCO to ensure global consistency.

The media release can be found on the ISDA website, and the entity-based reporting paper can be found under the 'Reporting' segment. We have also included 3 copies of the paper with this letter for your easy reference.

We hope that you find our paper useful, and would be happy to discuss further should you wish. Please do not hesitate to reach out to Rishi Kapoor (at rkapoor@isda.org or on +852 2200 5907), or Rahul Advani (at radvani@isda.org or on +65 6653 4171).

With best wishes,



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