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Hidden in Plain Sight?

Derivatives Exposures, Regulatory Transparency and Trade Repositories

Recent turbulence in various markets has raised concerns among some policymakers about their ability to see and monitor the risk exposures faced by counterparties from their derivatives transactions. Key data about these exposures is available due to mandated derivatives trade reporting requirements – via derivatives trade repositories – that have been established over the past decade.

But, for a variety of reasons, this information may well be 'hidden in plain sight' – not easily understood, not readily functional, not easily shared between policymakers, and therefore not as useful as it should be. This paper highlights relevant data that is available, discusses its value, explains the hurdles policymakers face in effectively using it, and suggests steps that policymakers might take to address and overcome these challenges to improve the usefulness and functionality of the data they currently receive.

INTRODUCTION

From Archegos in the US to the energy crisis in the EU to the problems faced by liability-driven investment (LDI) strategies in the UK, recent events have meant derivatives transparency is once again becoming a public policy agenda priority. Some regulators have voiced concerns about whether they can see and monitor risk exposures at counterparties in their jurisdictions and even whether some relevant counterparties are beyond their regulatory reporting perimeter.

These concerns come amid – and despite – prescriptive requirements to report derivatives transactions to regulators via trade repositories in major jurisdictions, which has been accomplished through significant investment in time and money by market participants and the official sector.

ISDA believes much of the information required to see and identify the build-up of derivatives exposures and risks is available in the trade repository data that is reported to regulators. But, as per the title of this report, it may well be hidden in plain sight – not easily understood, not readily functional, not easily shared among regulators and therefore not as useful as it might otherwise be.

To help inform and contribute constructively to policy discussions on derivatives transparency, ISDA is publishing this paper to explore the following questions:

- What information on derivatives trades and exposures is currently available to policymakers through trade repositories?
- How can this information be efficiently and effectively used by policymakers to address their risk exposure concerns?
- How can derivatives trade and risk data be shared by regulators that receive it with other policymakers within and across jurisdictions, in order to provide a more holistic view?

The paper covers derivatives reporting and trade repositories in the US, EU and UK.

REGULATORY TRANSPARENCY AND DERIVATIVES TRADE REPOSITORIES

Key data about derivatives activity and exposures is available due to mandated derivatives trade reporting requirements – via derivatives trade repositories – that have been established over the past decade.

Four key information sets are of particular relevance in this discussion: counterparty identification, notional amounts, valuations and risk metrics (including, for example, deltas and DV01s).

Counterparty Identification: Counterparties to derivatives trades are required to report legal entity identifiers (LEIs) for each transaction to trade repositories[1]. Each LEI links to key counterparty reference data (eg, the official name of the legal entity, registered address, country of formation, etc), which essentially answers the question 'Who is Who?'[2].

This means LEIs can be used to search for and to aggregate trades and exposures for each individual legal entity. As a result, they can be an important tool for regulators to spot and assess increases in trading activity and market risk.

There are, however, limits to monitoring activity and exposures using LEIs for individual entities. For example, many firms have multiple subsidiaries and operating entities, each of which has its own unique LEI. Policymakers may want to identify increases in and absolute levels of exposure on an aggregated basis across complex corporate structures and hierarchies. In other words, they need to know not just 'Who is Who', but also 'Who Owns Whom'[3].

Fortunately, solutions exist for mapping entities in a common structure. As stated by the Global Legal Identifier Foundation, legal entities that have or acquire an LEI report their direct accounting consolidating parent, as well as their ultimate accounting consolidating parent[4]. In addition, there are several solutions available to regulators that map LEIs required in derivatives trade reporting with third-party reference databases[5]. Use and integration of these mapping solutions can significantly enhance the ability of policymakers to flag increased activity and exposures across a firm.

Notional Outstanding: Notional measures the size of a transaction (not its risk) and is required to be reported for each trade. Regulators can aggregate notionals on each LEI/counterparty and monitor large increases or decreases on any frequency they choose, including daily or weekly. The value of this type of analysis is evidenced by a European Securities and Markets Authority (ESMA) report on Archegos, referenced later in this paper, which identified Archegos's exposures via trade repository data.

Some firms may have multiple LEIs, and policymakers will likely find it valuable to look at notionals across all related counterparties. While mapping notional exposures in this way requires an investment in resources (eg, the use of a third-party service and data staff to implement and integrate it into regulatory operations), it can provide additional insights to assist regulators with their supervisory responsibilities.

Mark-to-market Valuation: A key metric of market risk exposure – the mark-to-market (MtM) value of a trade – is also available to regulators through trade repositories.

The MtM value is the present value of the trade (for example, in fixed-to-floating interest rate swaps, it is the difference between the present value of the fixed payments and the present value of the floating payments). It indicates a counterparty's gain or loss on a trade at a given point in time. The MtM value of a transaction is updated in reporting to repositories on a daily basis[6].

[1] Trades that are cleared in the EU also require legal entity identifiers to be provided to clearing houses

[2] www.gleif.org/en/lei-data/access-and-use-lei-data/level-1-data-who-is-who#

[3] www.gleif.org/en/lei-data/access-and-use-lei-data/level-2-data-who-owns-whom

[4] www.gleif.org/en/lei-data/access-and-use-lei-data/level-2-data-who-owns-whom

[5] www.gleif.org/en/lei-data/lei-mapping

[6] In the US, registered swap dealers and major swap participants are required to report valuations daily. In the EU/UK, the daily valuation reporting requirement pertains to financial counterparties and firms designated as non-financial counterparties +

With this data, regulators can see the sizes of and changes in the values of swaps contracts (in other words, whether they are in the money or out of the money) and how these values have moved because of market conditions. They can do so on an individual LEI basis or across related LEIs (assuming the appropriate mapping has been conducted).

Delta: Delta is a gauge of risk sensitivity that measures the ratio of the change in the value of a derivatives contract to a change in the price or rate of the underlying. It is required to be reported for options and swaptions transactions in the US (as of December 2022) and the EU and UK (effective from April 2024). Regulators can use the data to see how the valuation of derivatives portfolios might evolve as the underlying changes in value (such as changes in interest rates).

DV01: The DV01 of a swap measures its interest rate sensitivity – the change in value of the swap for a 1 basis point change in market interest rates. It is an important risk metric that can be constructed using position data reported to regulators and easily obtainable external market data. The former includes the fixed rate on the swap and the transaction's maturity and payment dates (to calculate cashflows); the latter includes the swap curve, which is available from various market sources.

DV01 can be used for a variety of purposes[7]. One would be to simulate how swaps might change in value in response to an external market shock. Doing so would require policymakers to build the analytics to run simulation exercises on counterparty portfolios to measure those potential exposures.

[7] For an interesting discussion of how DV01 was used by researchers at the Commodity Futures Trading Commission, see www.cftc.gov/sites/default/files/2020-06/Risk%20Transfer%20Using%20Interest%20Rate%20Swaps%20March%202020_ada.pdf

THE ROLE OF DATA CURATION AND ANALYTICS IN ENSURING TRANSPARENCY

The derivatives trade repository data received by regulators offers several important opportunities: to identify individual derivatives counterparties and all counterparties within a single corporate structure; to see and monitor levels of and changes in trading activity by those counterparties (whether individual or aggregated); and to see and track changes in the value of derivatives contracts.

All of these opportunities provide significant levels of transparency on derivatives activity and exposures, but they also require an investment in technical resources to capitalize on them. The role of data curation and analytics – the ability to 'cleanse', standardize, map and analyze a tremendous volume of information – is essential.

Take, for example, the challenge of 'curating' or 'cleaning' trade databases to correct for information that is inaccurately or inconsistently reported (which could include, for example, mistakenly reporting notionals for a trade in thousands and not millions). Or the effort required to integrate third-party software for entity identification with the LEIs reported for each transaction. Or the task of consolidating notionals across a corporate entity's multiple LEIs. Or building a management dashboard with preset parameters that automate the identification of large increases in notionals or valuations. Or aggregating and then performing all of this work on data from different trade repositories within a jurisdiction (which is a particular issue in the EU, where there are a number of trade repositories). These and other analytical activities provide an important foundation for ensuring regulators achieve and maintain transparency over the markets they supervise.

A recent example underscores the value of current derivatives reporting information and the need for data analytics to enhance its utility. The US Securities and Exchange Commission's (SEC) Division of Economic Research and Analysis (DERA) recently published a memorandum[8] related to a proposed rulemaking. The memo discusses the process by which it analyzed data related to the economic effects of the proposal.

> *Using equity security-based swap data reported to [security-based swap data repositories (SBSDRs)], we first examine whether certain Schedule 13D Lead Filers would have had to report equity security-based swap positions under the reporting thresholds in proposed Rule 10B-1. Second, we analyze whether equity security-based swap positions of certain activist investors would have been reportable under some of the thresholds in proposed Rule 10B-1. Lastly, we inform on whether equity security-based swap positions of market participants generally would have been reportable under the thresholds in proposed Rule 10B-1 and several others…*
>
> *We first curate the SBSDR data. In our curated dataset, there are 8,523 unique equity security-based swap market participants identified by Legal Entity Identifiers ("LEIs") that had at least one reported equity security-based swap position over the Sample Period. Of these LEIs, we exclude the 45 that are security-based swap dealers ("SBSDs") because they are not likely to engage in activist activity. The remaining 8,478 non-SBSD market participants (hereafter "market participants") trade contracts on a total of 133,025 reference securities. We include the 72% of such reference securities that are standardized to a consistent and identifiable reference identifier in our Sample Period and exclude the remaining 28%.*

As can be seen from the excerpt, the information in the security-based swap data repository played an important role in DERA's analysis. This is due in part to the SEC staff's ability to overcome inherent data quality issues.

> *The SBSDR data as submitted by security-based swap market participants has several data issues. To adjust for and address these data issues, we develop a curated SBSDR dataset. The curating process involves: i) standardizing counterparty information such that all buyers and sellers are consistently identified, ii) converting all non-U.S. Dollar notional amounts to U.S. dollar notional amounts using end of day exchange rates, iii) standardizing all reference entity identifier types to a single consistent type, and iv) removing erroneous observations (e.g., notional amount reported in non-existing currencies, notional amounts per report greater than $1 trillion, etc.).*[9]

[8] www.sec.gov/comments/s7-32-10/s73210-207819-419422.pdf

[9] www.sec.gov/comments/s7-32-10/s73210-207819-419422.pdf

This example is not intended to downplay or minimize the data analytics resources required to enhance the functionality of derivatives reporting data received by regulators. Rather, it is to illustrate what is possible once the investment is made. These possibilities include not only an ex-post review of data, but also the development of management dashboards to signal changes in positions and exposures on a more current basis.

REGULATORY SILOS: CAN WE SEE WHAT'S AROUND THE CORNER?

One of the concerns raised about derivatives transparency in recent years (and about risks faced by market participants across asset classes and borders) stems from the fact that regulators have limited views of market activity and risks because they can only see what occurs in their jurisdictions and in connection with firms over which they have regulatory responsibility. This is an issue not only across geographic boundaries but also potentially within them (for example, with market regulators and prudential supervisors in the same jurisdiction).

Two important points are relevant here. First, there's no question that it would be beneficial for regulators to have a more holistic view of market activity consistent with their regulatory responsibilities for prudential soundness and/or financial stability. The issue really isn't whether it ***should*** happen; rather, the challenge is the path forward for ***how*** it can happen.

Many discussions and proposals have been offered to address this challenge. For example, a significant data harmonization effort would be required for such an undertaking in order to share data from multiple repositories in multiple jurisdictions. The more immediate issue, however, is less about the need for systems work (which definitely exists but can be achieved) and more about enabling regulators (either within the home jurisdiction or in other locations) to access data they are not directly authorized by law or regulation to receive.

One potential solution is for regulators in derivatives markets to sign memorandums of understanding (MoUs) with each other that would enable them to share information, and set forth the terms and conditions under which this information will be shared. There are, of course, legal, privacy, cybersecurity and operational issues that would need to be addressed, and there may be restrictions in some jurisdictions on the ability of regulators to enter into MoUs. But all solutions to this challenge require work. The MoU approach is not novel but has been used by financial regulators for decades to share data related to the cross-border oversight of derivatives. Indeed, the approach leverages existing frameworks and infrastructures and allows regulators the flexibility to define parameters. While it would require data harmonization and integration efforts, it may be a more practical near-term approach than overhauling the existing regime of global derivatives regulatory reporting.

The second important point on the challenge of siloed data is that it does not mean current reporting information is of limited use or functionality to policymakers. Consider, for example, the case of failed hedge fund Archegos, which was a relatively large user of security-based swaps in its investment strategies. As a 'US person', Archegos fell within the parameters of regulations affecting US and non-US security-based swaps dealers. But at the time of Archegos's failure, the US SEC regulations were not live – meaning Archegos did not have an obligation to report security-based swaps at that time (but would be required to do so now).

Interestingly, however, ESMA determined in an ex-post analysis of Archegos that regulatory reporting data it receives under the European Market Infrastructure Regulation (EMIR) made it "possible to track the steep increase in concentrated exposures that [Archegos] undertook in February and March 2021" and that such data can "be used to monitor leverage and concentration risk in derivatives markets"[10]. Archegos's counterparties that were based in the EU (and UK) were required to report their trades under EMIR, allowing regulators to build a picture of Archegos's exposures. As the ESMA report states:

> ***To obtain a more granular view of Archegos exposures, we use EMIR data[7] which cover derivatives transactions.*** *To analyse Archegos' positions we use two datasets: weekly trade state data, which provide a snapshot of outstanding derivatives, and trade activity data, which track lifecycle events of derivatives over time. As long as Archegos was using an EU counterparty, this counterparty had to report the derivative transaction in EMIR, which are in turn reported to ESMA…Although EMIR offers a partial view of Archegos positions since the firm was using non-EEA30 counterparties, detailed information reported to Trade Repositories provide important insights into the risks related to Archegos.*

[10] European Securities and Markets Authority (ESMA), TRV Risk Analysis: Leverage and derivatives – the case of Archegos, May 18, 2022, www.esma.europa.eu/press-news/esma-news/esma-publishes-ex-post-analysis-derivatives-risks-in-archegos

> ***Between January and end-2020, Archegos increased its exposures to [total return swaps], with notional amounts surging by approximately 180%....*** *Since most of the reported activity was done through UK banks, Archegos' exposures dropped mechanically in early 2021 when UK entities stopped reporting to EMIR.* ***However, using EEA30 data, we can see a steep increase in exposures in February and March, with a jump in notional of approximately 365% from mid-January to mid-March.*** *(Emphasis added.)*
>
> *As of 26 February 2021, Archegos's gross exposures to EU counterparties were 2.5 times larger than end-2020 levels and its net exposures were seven times larger than end-2020.*
>
> (Footnote 7: The European Market Infrastructure Regulation (EMIR) provides for detailed reporting requirements of derivative transactions to trade repositories by EU entities. Only individuals are exempted from reporting requirements.)

The preceding text focuses on changes in Archegos's positions based on notional values. The ESMA report also discusses how trade repository data can be used to monitor mark-to-market values[11]:

> ***EMIR data can also be used to analyse the mark-to-market value of the portfolio of swaps held by Archegos.*** *Since counterparties update the value of the swaps daily, it is possible to monitor changes in the valuation of the swaps…Between September 2020 and January 2021, the value of the swaps increased relatively smoothly, with positive values for the long positions and negative values on the short positions. The value of the portfolio of swaps then surged to a peak on 23 March, at more than ten times its end-January level, driven almost exclusively by profits on long positions. Between early February and 23 March the value of the swaps grew by 250%, reflecting the increase in the value of the underlying stocks and higher exposures taken by Archegos. Starting on 24 March, the value of the swaps collapsed, falling to a negative value of by 26 March, the day of the default of Archegos. In addition, the changes in the value of the swaps were almost entirely driven by long positions on four stocks, which together accounted for more than 80% of the mark-to-market value of the portfolio in March….* ***The data show clearly that Archegos had a highly concentrated portfolio and that any negative change in the price of the underlying stocks could trigger large mark-to-market losses and substantial variation margins.*** *(Emphasis added)*

[11] ESMA, TRV Risk Analysis: Leverage and derivatives – the case of Archegos, May 18, 2022, www.esma.europa.eu/press-news/esma-news/esma-publishes-ex-post-analysis-derivatives-risks-in-archegos

WHAT ABOUT THE CDS MARKET?

Even as public and regulatory transparency for derivatives markets overall has increased, credit default swaps (CDS) continue to be a source of concern to some in the regulatory community. In considering these issues, it is important to keep in mind the different types of reporting that exist for derivatives generally, and also the unique reporting framework for CDS specifically.

With regard to the types of reporting, there are both regulatory and public reporting requirements for derivatives, and they have different purposes and content. Regulatory reporting (the main subject of this paper) is typically more detailed and, as per the ESMA analysis on Archegos, is focused on providing transparency to policymakers on risk exposures and build-up.

In addition to the regulatory reporting requirements that currently exist for CDS, one key aspect of regulatory transparency that is important to keep in mind for this specific market is the Depository Trust & Clearing Corporation's Trade Information Warehouse (DTCC TIW). The TIW is a centralized electronic database that holds the most current information for virtually all cleared and bilateral CDS contracts globally[12]. The warehouse contains approximately 70,000 accounts representing derivatives counterparties across 95 countries. The TIW has been in operation since before the post-crisis reforms that led to the extensive rollout of additional public and regulatory transparency for other derivatives markets.

Data in the TIW includes the identity of counterparties for each trade and the identity of the reference entity on which the CDS trade is based. The information can be sorted to reveal levels of and changes in CDS notionals by counterparty or reference entity. TIW data can be accessed by market regulators and prudential supervisors after agreement of certain terms and conditions. It enables a jurisdiction's regulators to see all trading activity where either counterparty to a trade is domiciled in that location, and where the underlying reference entity is based in that jurisdiction.

In contrast to regulatory reporting, public reporting is designed to provide price transparency. CDS pricing information is available on a global basis from several vendors, as well as central counterparties. Real-time public reporting of single-name CDS and CDS index transactions is available in the US, with the data available across multiple jurisdictions.

[12] www.dtcc.com/repository-and-derivatives-services/derivatives-services/trade-information-warehouse

FIVE KEY QUESTIONS: DERIVATIVES AND TRANSPARENCY

1) *Aren't some firms outside the regulatory perimeter? Does this mean there is little or no transparency on their derivatives trading activities? If so, how are regulators able to track risks and exposures from their derivatives trades?*

   Today, the EU, UK and US each has rules requiring derivatives trades to be reported[13]. Consequently, regulators can use LEIs and related data fields to track exposures of all counterparties to a trade. This is an important point given the misperception that energy firms that faced large margin payments for their exchange-traded derivatives hedges were not covered by reporting requirements for over-the-counter (OTC) derivatives. The regulatory perimeter is jurisdictional and could be addressed through MoUs.

2) *Does the derivatives information that is currently reported provide regulators with insights or warnings on build-up of 'hidden leverage'?*

   Certainly, it provides regulators with the ability to build management dashboards that flag large increases/decreases in positions and exposures.

   However, the hidden leverage concern requires deeper and more thoughtful analysis into what is meant by both 'hidden' and 'leverage'. Leverage generally refers to the amount of risk that a counterparty takes on for a given amount of cash investment. Home buyers that make a 20% down payment, for example, are leveraged four to one. A purchaser of stock on margin leverages his or her cash investment as well. Like these and other financial activities, derivatives positions also generally involve leverage – that is to say, the amount at risk is large relative to the upfront cash amount.

   As noted earlier, derivatives valuations and risk metrics are reported and/or are available via regulatory reporting. This means the amount of risk and the degree to which it changes depending on variations in market conditions can be determined (although work may be required to make such calculations). Mark-to-market changes can be monitored on a daily basis, and as regulations require derivatives trades to be collateralized, an increase in the amount of margin that a counterparty needs to post as a result of this volatility can also be discerned.

   This means derivatives exposures and risks are not really hidden. The EU energy and UK LDI situations are cases in point. EU energy company derivatives positions (mostly exchange traded) were known, as were LDI funds' bilateral OTC derivatives transactions. Stress testing could have revealed how those positions would perform. The severe, sudden external shocks that engulfed market participants in both situations were unanticipated. While their derivatives positions were predominantly hedges, these market shocks stressed the ability of firms to post cash margin. Both situations have therefore led to renewed emphasis on liquidity management across financial markets.

3) *Is the current derivatives regulatory reporting framework fit for purpose in terms of providing sufficient transparency to regulators? Or do regulators and market participants need to go back to the drawing board and start over?*

   There's no question that improvements can and should be made. A major issue is with the multitude of rules that reporting parties need to comply with in different jurisdictions, many of which are different and all of which need to be interpreted – which, in turn, leads to inconsistent reporting by different parties. ISDA's Digital Regulatory Reporting (DRR) initiative aims to improve this aspect of the regulatory reporting framework. The DRR initiative is a global, collaborative industry program using technology to standardize and accelerate efficient implementation of transaction reporting rules and rule amendments in key jurisdictions. It facilitates a scalable implementation of regulations by using one standardized representation of required reportable data. It helps make the reporting process

[13] Certain physically settled foreign exchange derivatives contracts are exempt from reporting requirements

more efficient for derivatives reporting counterparties and makes the data more consistent and higher quality for regulators.

The DRR effort will ultimately enable regulators to publish reporting rules as executable code that can be automatically read and interpreted by the technology systems of reporting entities. The approach can be extended beyond derivatives to encompass other asset classes and other data that is required to be reported to regulators. A forthcoming ISDA paper will outline what an improved framework might look like and is discussed in the following section.

In the meantime, it is imperative that regulators and policymakers work constructively and efficiently to standardize and enhance the considerable value of data that is currently reported. The work by policymakers on unique product identifiers, unique transaction identifiers and critical data elements is a welcome step in that direction. But it also includes making the required investments in systems and data analytics that would ensure reported data is cleaned, standardized and managed so it is functional for regulators.

Additionally, it requires regulators to work together to agree access to data they need to oversee derivatives markets under their respective jurisdictions, via MoUs or other means.

4) *If improved transparency about current and future exposures is possible given the current state of derivatives reporting, then why isn't it being achieved?*

Building and maintaining systems that enable reported data to be scrubbed, made consistent, updated daily and integrated into dashboards requires time, money and effort. In the words of one former public official: "You have to want to do it." It requires a clear vision of what needs to be done, an allocation of resources to develop and execute the plan, and the ability to secure that resource allocation amid competing priorities.

5) *Archegos, LDIs, energy firms – market stresses and margin calls related to derivatives seem common to these examples, and all of them arose quickly and without prior warning. Doesn't this confirm the lack of transparency in derivatives markets?*

The lessons learned from these and similar situations are important. Sound counterparty exposure and liquidity management are essential. It's far less clear if a lack of transparency of hidden risks also played a role. The risks at Archegos were visible to some policymakers. LDI trades, notionals and exposures were reported to regulators. Energy firms' trading of derivatives was primarily exchange traded and their bilateral trades were and are required to be reported. Both of those situations arose because of sudden, sharp and unanticipated market disruptions that affected markets overall, including derivatives.

DERIVATIVES REPORTING: WHAT WILL THE NEXT GENERATION LOOK LIKE?

It may at first seem contradictory: the current derivatives regulatory reporting framework offers important information for regulators on derivatives trading activity and exposures, which can be analyzed for major trends and risks. But, at the same time, it is not by any means ideal.

As this paper notes, ISDA believes that steps (data analytics, MOUs, etc) can and should be taken now to enhance the functionality and utility of the current framework.

That said, the many different requirements in this framework, and the resulting complexity that has emerged globally, are a burden on both firms and regulators. Institutions find the interpretation of and compliance with so many rule sets a technical and resources challenge. Regulators also need to have dedicated resources to answer questions about the minutiae of how market participants should comply with very specific technical requirements. This has an impact on the quality and integrity of the data at granular levels that regulators want access to. Spending so much effort on how to report the data reduces the opportunity to use the data on more valuable risk analysis.

In the long term, there is a path forward to a more efficient global regulatory system. ISDA believes this can be achieved by deploying data standards, shared open-source software solutions and emerging technologies (eg, distributed ledger technologies, complex data analytics and artificial intelligence) that will simplify reporting and allow even more effective regulatory oversight to emerge. These topics will be explored in an ISDA paper later in 2023.

One topic that will be explored in this paper is machine-readable and executable reporting (MRER) – a term that encompasses a number of regulatory reporting initiatives globally. This is the first step in the deployment of data standards and shared software solutions that increase efficiency.

Broadly defined, MRER refers to the publication of reporting rules and/or the implementation of reporting requirements by market participants via machine-readable, machine-executable code. This could apply to derivatives reporting and other regulatory reporting requirements. ISDA's DRR project is an example of MRER being created for regulatory reporting of derivatives for Dodd-Frank and EMIR requirements.

MRER will allow regulators to publish reporting rules as executable code that can be automatically read and interpreted by the IT systems of reporting entities, improving the reporting process and removing ambiguity in interpretation and compliance.

The paper will explore how MRER can make reporting more efficient and effective, and explain where it has been trialed and what the trial results have shown. It will also consider the need for and role of standards, taxonomies and digital solutions in MRER, and the concerns related to MRER and how those concerns can be addressed.

Beyond MRER, the paper will also explore:

- What it means for the future of data collection and reporting once the system is more automated and compliance is mutualized via potentially open-source code.
- The role of data standards that must underpin MRER and the underlying transformation of the financial data that may emerge.
- The potential for new technology to achieve much higher levels of regulatory analysis and improvements to regulatory oversight with much less effort from regulators and market participants than today.

SUMMARY

Concerns about derivatives exposures and transparency are rising on the public policy agenda. In this paper, we attempt to highlight that a significant level of information – counterparty identification, notional volumes, mark-to-market values and risk metrics – is currently available to policymakers through trade repositories. But realizing the potential of the current reporting framework – ensuring that key information does not remain hidden in plain sight – is challenging and requires investments in data curation and analytics. In addition, the challenge of data being siloed in jurisdictions continues to merit attention. MoUs could provide regulators with a solution to this challenge.

ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 77 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.