

OTC Derivatives Trade Reporting in Ontario: What Are Your Obligations?

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OSC

ONTARIO SECURITIES COMMISSION

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Introduction:

Global Financial Crisis & G20 Commitments

Improving over-the-counter derivatives markets:

- All standardized OTC derivative contracts should be traded on electronic trading platforms
 - Cleared through central counterparties
 - **OTC derivative contracts should be reported to trade repositories**
 - Non-centrally cleared contracts should be subject to higher capital requirements
- G20 Leaders Statement: The Pittsburgh Summit
(September 24-25, 2009, Pittsburgh)

Introduction:

Global Financial Crisis & G20 Commitments

- Policy aims of the TR Rule:
 - Improve transparency & regulatory oversight in the derivatives market
 - Identify and address systemic risk and the risk of market abuse
 - Support policy-making by providing regulators with information on: the nature and characteristics of the Canadian derivatives market including impact on end-users

The TR & Scope Rules: Publication History

- OSC Rule 91-506 *Derivatives: Product Determination* (the "Scope Rule")
- OSC Rule 91-507 *Trade Repositories and Derivatives Data Reporting* (the "TR Rule")
- OSC Notice of Amendments to the TR Rule

Consultation Paper	Jun. 23, 2011
Model Rules	Dec. 6, 2012
Proposed Ontario Rules	Jun. 6, 2013
Final Ontario Rules	Nov. 14, 2013 (Publication Date) Dec. 31, 2013 (Effective Date)
Amendments to Final Ontario Rules	Apr. 17, 2014 (Publication Date) Jul. 2, 2014 (Expected Effective Date)

What is Required to be Reported?

The Reportable Transaction Trigger

- Reportable transactions trigger the reporting obligations under the TR Rule.
- A reportable transaction is a **transaction** involving a **local counterparty**.
- Reportable transactions must be reported to a designated trade repository.

What is Required to be Reported?

The Reportable Transaction Trigger

- **“Transaction”** includes assigning, novating, selling or otherwise acquiring or disposing of a **derivative**.
- **“Derivative”** is determined by the Ontario Securities Act and the Scope Rule.

Which Derivative Contracts?

The Scope Rule – 91-506

- The Scope Rule prescribes the following instruments that may meet the broad definition of “derivative” to not be derivatives for purposes of the TR Rule:
 - Gaming contracts
 - Insurance contracts
 - Spot FX contracts
 - Physical commodities
 - Deposits at banks, credit unions, trust co.'s
 - **Exchange traded derivatives**

Which Derivative Contracts?

The Scope Rule

- The Scope Rule also prescribes treatment for hybrid instruments that fall within both the definition of “derivative” and “security”.
- Generally, most instruments currently treated as securities will remain under this regime and not be required to be reported (e.g. Structured Notes, ABS, warrants, securities of investment funds).

What is Required to be Reported?

The Reportable Transaction Trigger

- **“Local counterparty”** includes:
 - i. A person or company organized under Ontario law;
 - ii. A person or company that has its head office or principal place of business in Ontario;
 - iii. A **guaranteed affiliate** of (i) or (ii);
 - iv. An Ontario-registered derivatives dealer **or alternate category of registration as a consequence of trading derivatives.**

Who Must Report?

The Reporting Counterparty

- The “**reporting counterparty**” is under a duty to report a reportable transaction to a designated trade repository and depends on the transaction counterparties:
 - i. Recognized or exempt clearing agency for cleared transactions;
 - ii. **Derivatives dealers** for uncleared transactions;
 - iii. End-user local counterparties for uncleared transactions not involving dealers.

Derivatives Dealer – Local Counterparty vs Reporting Counterparty

- Local Counterparty – Registered as derivatives dealer in Ontario.

- Reporting Counterparty – engaging in the business of trading in derivatives in Ontario as principal or agent.
 - Does not require registration.

Who Must Report? Delegation

- **Delegation:** Reporting counterparties may delegate all reporting obligations.

Who Must Report?

Reporting Counterparty Obligations

- **Single Trade Repository:** all derivatives data for a single reportable transaction must be reported to the **same designated TR**.
- **Clearing Agency:** if the reporting counterparty is a clearing agency, it must report derivatives data to a designated **TR selected by the local counterparty**, if any.

Who Must Report?

The Reporting Counterparty

- **Errors & Omissions:** upon discovery of an error or omission in reported derivatives data
 - a reporting counterparty must notify the TR; and
 - a local counterparty other than the reporting counterparty must notify the reporting counterparty

as soon as technologically practicable and no later than the next business day.

When to Report?

Timing of Reporting Obligations

- Goal is for **real-time** reporting of derivatives data as soon as **technologically practicable**.
- Different outside timing deadlines exist depending on whether or not the counterparty is an end-user.

When to Report?

Timing of Reporting Obligations

	Clearing Agencies	Derivatives Dealers	End-Users
Creation Data	Real-time but no later than end of next business day		
Life-Cycle Event Data	Day of event but no later than end of next business day		
Valuation Data	Daily (no later than end of next business day)		Quarterly (no later than 30 days after calendar quarter)
Errors & Omissions	Real-time but no later than end of next business day		

When to Report?

Timing of Reporting Obligations

- **Business day:** reporting counterparty's location
- **Delegated obligations:** more onerous timing requirements apply

Data Dissemination: Counterparty Access

- A designated TR must:
 - give timely access to the derivatives data of the counterparties to a reportable transaction; and
 - have verification/authorization procedures in place to enable above access.

Data Dissemination: Public Aggregated Data

- A designated TR must make aggregate derivatives data publicly available, including information on:
 - open positions
 - transaction volumes
 - average prices

Data Dissemination: Public Transaction-Level Data

- A designated TR must make **anonymous post-trade transaction level data** publicly available, subject to the following reporting delays:
 - **One-day** for reportable transactions involving a derivatives dealer;
 - **Two-day** for reportable transactions involving all other parties.

Amendments to TR Rule

- Delay of reporting obligations including pre-existing derivatives
- Repeal of the local counterparty fallback
- Delay of public dissemination of transaction-level reports

Amendments to TR Rule: Reporting Obligations Delayed

Derivatives Dealers & CCPs

- **Oct. 31, 2014:** 4 month delay of commencement of reporting obligation
- **Apr. 30, 2015:** deadline for reporting pre-existing derivatives

All other counterparties

- **Jun. 30, 2015:** 9 month delay of commencement of reporting obligations
- **Dec. 31, 2015:** deadline for reporting pre-existing derivatives

Amendments to TR Rule: Pre-Existing Derivatives

April 30, 2015 (delayed 4 months)

- Reporting counterparty: dealer or CCP
- Transaction entered into before October 31, 2014 with outstanding obligations as of April 30, 2015

December 31, 2015 (delayed 12 months)

- Reporting counterparty: end user
- Transaction entered into before June 30, 2015 with outstanding obligation as of December 31, 2015

Amendments to TR Rule: Repeal of Local Counterparty Fallback

- Repealed subsections 25(2) and 31(4)
- Non-dealer local counterparty is no longer responsible for monitoring the transaction reporting of a foreign dealer reporting counterparty
- Why? Significant resource and technological difficulties for end users to develop systems to monitor counterparty reporting

Effective Dates



- Effective Date of TR Rule
- Dealer & Cleared Transaction Reporting Obligation
- Public Dissemination of Transaction-level TR Data
- Local End-User Reporting Obligation

What is Reported?

Derivatives Data & Int'l Standards

- **Creation data:** initial transaction data as required by Appendix A.
- **Life-cycle event data:** continuation data throughout the life of an OTC derivative transaction (i.e. changes to previously reported data).
- **Valuation data:** periodic mark-to-market value of derivative.
- **International standards:** unique identifiers for legal entities (LEI), transactions (UTI), and product types (UPI).

What is Reported? Parties to the Derivative

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Clearing agency	LEI of the clearing agency where the transaction was cleared.	N	Y
Clearing member	LEI of the clearing member, if the clearing member is not a counterparty.	N	N
Clearing exemption	Indicate whether one or more of the counterparties to the transaction are exempted from a mandatory clearing requirement.	Y	N
Broker	LEI of the broker acting as an intermediary for the reporting counterparty without becoming a counterparty.	N	N

What is Reported?

Parties to the Derivative (Cont)

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Identifier of reporting counterparty	LEI of the reporting counterparty or, in case of an individual, its client code.	N	Y
Identifier of non-reporting counterparty	LEI of the non-reporting counterparty or, in case of an individual, its client code.	N	Y
Counterparty side	Indicate whether the reporting counterparty was the buyer or seller. In the case of swaps, other than credit default, the buyer will represent the payer of leg 1 and the seller will be the payer of leg 2.	N	Y

What is Reported?

Parties to the Derivative (Cont)

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Identifier of agent reporting the transaction	LEI of the agent reporting the transaction if reporting of the transaction has been delegated by the reporting counterparty.	N	N
Reporting counterparty derivatives dealer or non-derivatives dealer	Indicate whether the reporting counterparty is a derivatives dealer or non-derivatives dealer.	N	N
Non-reporting counterparty local counterparty or not local	Indicate whether the non-reporting counterparty is a local counterparty or not.	N	N

What is Reported? Contract Type

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Unique product identifier	Unique product identification code based on the taxonomy of the product.	Y	N
Underlying asset identifier 1	The unique identifier of the asset referenced in the contract.	Y	Y
Underlying asset identifier 2	The unique identifier of the second asset referenced in the contract, if more than one. If more than two assets identified in the contract, report the unique identifiers for those additional underlying assets.	Y	Y
Asset class	Major asset class of the product (e.g., interest rate, credit, commodity, foreign exchange, equity, etc.).	Y	N
Inter-affiliate	Indicate whether the transaction is between two affiliated entities.	N	N

What is Reported?

Transaction Details

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Transaction identifier	The unique transaction identifier as provided by the designated trade repository or the identifier as identified by the two counterparties, electronic trading venue of execution or clearing agency.	N	Y
Master agreement type	The type of master agreement, if used for the reported transaction.	N	N
Master agreement version	Date of the master agreement version (e.g., 2002, 2006).	N	N

What is Reported?

Transaction Details (Cont)

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Electronic trading venue identifier	LEI of the electronic trading venue or, if not available, the name of the electronic trading venue where the transaction was executed.	Y (Only "Yes" or "No" shall be publicly disseminated)	Y
Collateralization	Indicate whether the transaction is collateralized. Field Values: <ul style="list-style-type: none"> Fully (initial and variation margin required to be posted by both parties), Partially (variation only required to be posted by both parties), One-way (one party will be required to post some form of collateral), Uncollateralized. 	Y	N

What is Reported? Valuation Data

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Value of contract calculated by the reporting counterparty	Mark-to-market valuation of the contract, or mark-to-model valuation.	N	N
Valuation date	Date of the latest mark-to-market or mark-to-model valuation.	N	N
Valuation type	Indicate whether valuation was based on mark-to-market or mark-to-model.	N	N

What is Reported?

Other Fields Different from CFTC Requirements

Data field	Description	Required for Public Dissemination	Required for Pre-existing Transactions
Delivery point	The delivery location.	N	N
Delivery connection points	Description of the delivery route.	N	N
Clearing timestamp	The time and date the transaction was cleared, expressed using UTC.	N	N

What is Reported?

Who create UPI & UTI

- Rules specify that a designated trade repository must assign a UTI to a transaction, using either:
 - Its own methodology
 - or a unique transaction identifier previously assigned to the transaction.

- Rules specify that a reporting counterparty must identify each transaction with a UPI.

What is Reported?

Unique Product Identifier (UPI)

- Status: ISDA created high level UPI for all asset classes, currently there is no ongoing work

- UPI describes with sufficient distinctiveness and specificity :
 - the derivatives asset class
 - sub-type
 - underlying product for the derivative

What is Reported?

Unique Product Identifier (UPI)

- ISDA's UPI has been approved by the CFTC and its taxonomy can be found at <http://www2.isda.org/identifiers-and-otc-taxonomies/page/2>
- Sample Representations

Asset Class	Sample Representation
Credit	Credit: Index: CDX: CDXHY
Interest Rate	InterestRate: IRSwap: FixedFloat
Commodity	Commodity: Energy: Oil: Swap: Cash
Foreign Exchange	ForeignExchange: NDF
Equity	Equity: Forward: PriceReturnBasicPerformance: SingleName

What is Reported?

Unique Transaction Identifier (UTI)

- Status: No Canadian methodology requirement
- All trades should have a UTI which is generated, communicated at the earliest possible point in the trade flow.
- If a trade requires a Unique Swap Identifier (USI), this can be used as the UTI.
- UTI required under other jurisdictions can be used.

What is Reported?

Summary

- Pre-existing transactions and public dissemination data fields are similar to the CFTC requirements.
- Creation data is primarily a combination of the CFTC or ESMA requirements.
- TRs are a good resource for information on the reporting standards.

Legal Entity Identifiers (LEI)

- What is an LEI?
- Who needs to have one?
- Where can you get one?
- What is the process to receive one?
- What are your obligations once you have one?

What is an LEI?

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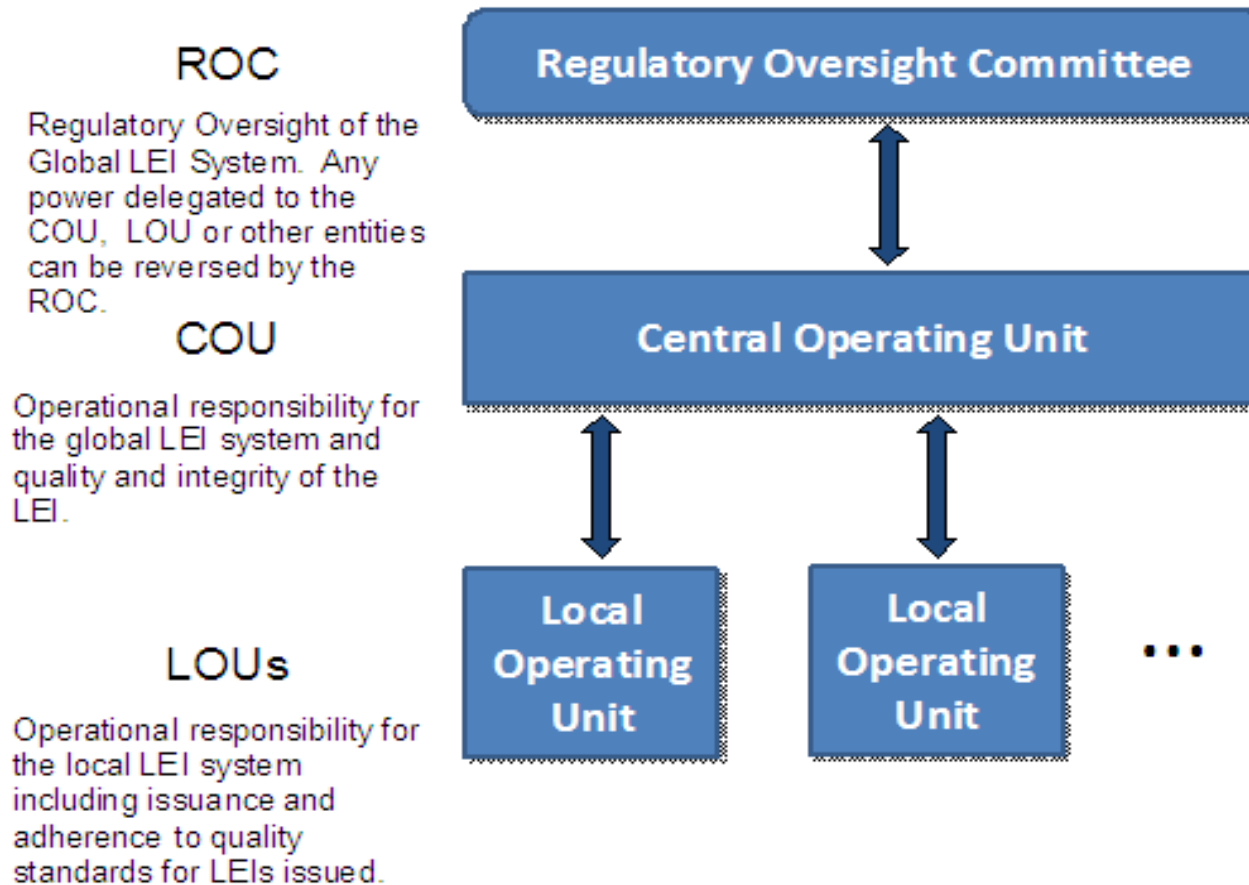
- 20-character code using ISO standard 17442;
- Identifier of entities;
- Global standard;
- Endorsed by G20, sponsored by FSB;
- Administered by the Global LEI System;

Who needs to have an LEI?

- All reporting and non-reporting counterparties
- Reporting agent if not a counterparty
- Clearing agency where trade was cleared
- Clearing member if not a counterparty
- Broker acting as intermediary if not a counterparty
- Electronic trading venue where trade executed

There are no substitute identifiers under the rule

Where can you get an LEI?



Local Operating Units (LOUs)

You can obtain an LEI from an endorsed Local Operating Unit (LOU).

The list of endorsed pre-LOUs is available at:
<http://www.leiroc.org/>

- WMDatenservice
- GMEI Utility (DTCC)
- London Stock Exchange
- Irish Stock Exchange

Currently there is no Canadian LOU available.

Process required to receive an LEI

- Submission of application with necessary details;
- Process of data validation by LOU;
 - *Authorisation, exclusivity, data verification*
- Issuance time between 1-3 weeks;
- Payment (approx. \$200-300);
- Assisted registration is allowed if authorisation is disclosed to LOU;

Data necessary to obtain an LEI

- Official name of entity:
- Address of headquarters:
- Address of legal formation:
- Name of business registry where entity is formed (if applicable):
- Business registry ID (if applicable):

What are the obligations regarding LEIs?

- Use only one LEI for all LEI reporting;
- Notify the LOU of changes to the reference data;
- Annual re-verification check by LOU is required;
- Allowed to move (port) your LEI to any endorsed LOU;

Where else are LEIs required?

- CFTC trade reporting rules;
- EMIR reporting rules;
- US National Association of Insurance Commissioners;
- European Banking Authority (proposed);
- IIROC Debt reporting (proposed);

Interim System of Pre-LEIs

- Global LEI System is not yet built;
- LOUs issuing Pre-LEIs;
- Will migrate into LEIs once Global system is complete;
- Pre-LEI and LEI codes will be identical;

Key Points

- Everyone needs an LEI;
- Get one from a ROC-endorsed LOU;
- Use one LEI for all LEI reporting;

Other Regulations

Rule	Publication Date
Proposed OSC Rule 24-503 <i>Clearing Agency Requirements</i>	Dec. 19, 2013
CSA Staff Notice 91-303 <i>Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives</i>	Dec. 19, 2013
CSA Staff Notice 91-304 <i>Model Provincial Rule on Derivatives: Customer Clearing and Protection of Customer Collateral and Positions</i>	Jan. 16, 2014

Thank You

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