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Subcommittee on Commodity Exchanges, Energy and Credit
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Thank you Chairman Scott, Ranking Member Scott and members of this Subcommittee. I am pleased to be here today to update you on the Commodity Futures Trading Commission's (CFTC) progress in achieving the G-20's swap data reporting goals.

The CFTC oversees the futures, options, and swaps markets. As you know, these markets are vital to our economy, affecting the prices we all pay for food, energy, and other goods and services. They do this by providing farmers, ranchers and businesses of all types with the ability to manage costs and hedge commercial risk.

I am the Director of the CFTC's Office of Data and Technology and serve in the role of Chief Information Officer (CIO). In this capacity, I oversee the technology and data functions of the Commission. I am responsible for strategic planning, data management, systems development, infrastructure operations, information technology (IT) security and technology planning.

In 2010, the role of the CIO changed significantly. As you know, swap data reporting was one of the key goals of G-20 agreement, and was later codified in the Dodd-Frank Act. As a result, the CFTC's responsibilities in this area were expanded following Dodd-Frank's enactment.

Background

Since the passage of the Dodd Frank, the Commission has adopted rules for data reporting that have fundamentally changed how we view the markets. For example, in the fall of 2008, there was effectively no reporting of swap transactions or positions. During the crisis, this lack of information made it difficult for regulators and market participants to assess the exposures of major institutions, or the interconnectedness of those exposures. In fact, the opaque nature of this market may have contributed to excessive risk-taking in the first place.

Today, we see a different landscape. Increased data reporting has provided greater transparency to market participants. Regulators have a greater ability to assess systemic risk in the market.

For example, currently all swaps, whether cleared or uncleared, must be reported to swap data repositories (SDRs). There are four SDRs operating in the United States, and there are two dozen internationally. The Commission has requirements for which market participants must report, what and when they must report, and how they operate.

Increased transparency and access to information on swaps has benefitted the public. For example, SDRs' public websites provide price and volume information for individual swap transactions in real-time. This facilitates efficient price discovery for all market participants, including end-users such as farmers, ranchers and commercial businesses. In addition, the CFTC provides a Weekly Swaps Report that gives an aggregate snapshot of the market, sliced and diced in various ways. Users of swaps also have access to data through swap execution facility (SEF) platforms and other vendors that facilitate price discovery.

This transparency has also fostered private sector innovation that is further promoting the public good. For example, some companies are analyzing swap execution facility (SEF) data and packaging it in a way that provides a more comprehensive picture of what's happening on SEFs at any given time. Other companies are enhancing public data by aggregating information from SDRs in real-time.

As a regulator, the CFTC reaps the benefits of this data as well. Our ability to oversee the swaps market has dramatically improved. As with futures and options data, swaps data is critical in helping the CFTC fulfill its core mission.

Over the years, the Commission has built a sophisticated surveillance system for futures that relies on inputs from clearinghouses, clearing members and large traders. Examples of this data include clearing member positions by house and customer account, as well as by individual customer; large trader reporting; the amounts of both initial margin held, and variation margin paid and received; as well as the financial resources of firms. These and other inputs allow staff to look at market risk, liquidity risk, credit risk and concentration risk on a daily basis – all at the clearinghouse, clearing member, and trader level. For example, this helps the Commission to stress test exposures and back test the adequacy of margin coverage, all of which is important to oversight of the markets.

The CFTC is now building swaps into these risk surveillance systems, to identify and monitor swaps activities and exposures. This allows the CFTC to stress test those exposures, compare them to available margin, and look at potential systemic issues. The Commission looks at activity and risk at the clearinghouse, clearing member, swap dealer and large customer level. With uncleared exposures, the CFTC focuses on activity between counterparties, the interconnectedness of large institutions, and other areas.

In addition to risk surveillance, the agency uses swaps data for enforcement, economic analysis of market trends, and evaluation of new products.

In all of these areas, swaps data has helped the agency do more to create an efficient and accurate reporting system. It is a significant undertaking. Futures reporting relies on a relatively small number of reporting entities. Moreover, contracts are highly standardized. Therefore, our reporting rules for futures are considerably less complex. In contrast, swaps make up thousands of entities reporting on an infinite variety of transactions. Because swaps can be traded on a variety of platforms or bilaterally, the Commission has worked to design a system that can analyze and aggregate swaps data from across all these execution and clearing venues. It is important to have a reporting system that recognizes this variation, but still enables us to aggregate where appropriate. In addition, swaps can go through many stages and changes, making it critical to track that swap through its lifecycle.

Building this system is complicated and time consuming. It requires constant updates and refinements, as we understand the data better. The Commission is collaborating with market participants and other nations in this work, to harmonize and standardize our efforts. Indeed, this is not something the CFTC can do on its own. The Commission requires data that is clean, consistent, accurate and timely. And we are continuing to work with market participants to analyze exactly what data should be reported, how it should be reported, by whom and when. Above all, we are working to achieve an efficient and effective process to help us achieve these goals.

Improving Data Reporting

The Commission is taking on a number of initiatives to improve the accuracy, efficiency and timeliness of data reporting. They include the following:

Making Sure the Data is Consistent and High Quality. The Commission is working to ensure the data it receives is more consistent and high-quality than today. Today, there can be variation in how the same information from different counterparties is reported to the SDRs, and in how the SDRs themselves transmit the same information to us. And this occurs even with relatively simple pieces of information.

For example, a simple foreign exchange benchmark or a credit default swap index may be reported seven or eight different ways by market participants. This causes problems when it comes to aggregating and analyzing this information.

To address the issue, in December, CFTC staff requested public comment on technical specifications for the reporting of 120 priority data elements. Our request for public input marks the culmination of months of work to identify priority areas where standardization or clarification is needed. This included feedback from a 2014 concept release on this issue as well as constructive input from our Technology Advisory Committee.

The priority fields include a number of swap data reporting topics, such as counterparties, price, clearing, product, periodic reporting, orders, options, notional amount and many others. The Commission will use public comments to develop proposals that specify the form, manner and allowable values that each data element can have.

Making Sure the Data is Complete. The Commission also is working towards obtaining complete data. There are a number of challenges here. Some required fields are not reported by participants, and SDRs don't believe they have the authority to reject data if it is incomplete. Though we have seen an improvement across a number of data fields, there is additional work to do. In the past, CFTC Chairman Massad has underscored his belief that the CFTC should change its rules so that SDRs have a greater ability to improve the quality of data before it arrives at the CFTC. Staff is looking closely at this possibility.

Refining Swap Identifiers. The CFTC is working to develop a uniform, effective means to identify swaps and swap activity by participant, transaction and product type throughout the swap life cycle. These include the Legal Entity Identifier (LEI) as well as the Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI). The LEI is the most advanced. It is a critical way to identify a specific entity and its activities. There are more than 400,000 LEIs today.

Our goal is to expand the usefulness of the LEI so that it can be used to identify related entities – and aggregate positions or transactions among them, something that cannot be done efficiently today.

Aggregation is particularly important given that many market participants have a number of affiliates. The Commission currently can aggregate entities manually by name, but that is time consuming and not always accurate. The CFTC is working closely with the LEI Regulatory Oversight Committee (ROC) and other regulators to develop solutions that will address this challenge. The LEI ROC is a group of more than 70 public authorities from more than 40 countries. Its mission is to coordinate and oversee the development of a worldwide framework for LEIs, known as the Global LEI System.

International Efforts. The Commission is also a leader in addressing these issues internationally. The CFTC co-chairs an international task force that is leading the effort to harmonize data reporting standards. This has been formed under the auspices of Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), and it involves many representatives from regulators in the G-20 nations. I am pleased to co-chair this task force.

One of the task force's projects is to standardize the reporting of data fields by proposing definitions and formats for each field. The task force recently published an initial consultative document containing a batch of data fields. The CFTC is coordinating its in-house standardization efforts with this international work.

In addition, that same international task force on data is developing a standardized unique transaction identifier, which is similar to our unique swap identifier. This will enable regulators to track a particular swap through its life cycle.

This international forum is also developing a standardized unique product identifier, which will enable regulators to classify swaps by product type. They expect to issue guidance on both the UTI and UPI this year. This work will enable us to track swaps and aggregate data much more effectively.

Clarifying Reporting Obligations and Eliminating Unnecessary Reporting Obligations. The Commission has also endeavored to clarify who has the obligation to report data and what data must be reported. It is also working to eliminate reporting obligations that are not necessary.

For example, CFTC staff made it clear that SEFs do not have an obligation to report confirmation data they do not possess—such as confirmation data that is incorporated from an underlying Master Agreement. Commission staff have made clear that SEFs only need to report the primary economic terms and such other confirmation data to which they already have access. This relieves SEFs of any obligation to obtain an underlying Master Agreement or similar documentation.

The Commission has also proposed modifications to the rules governing recordkeeping and reporting of cleared swaps. Under the current regime, if a swap is transacted on a SEF, it is reported to an SDR. If that "alpha" swap is then cleared, the so-called "beta" and "gamma" swaps that are created as a result are also reported. But those two new swaps might be reported to a different SDR than the one to which the original alpha swap was reported, and there might not be any record of the termination of the alpha swap. This creates confusion.

Recently, the Commission proposed to fix these issues by creating a simple, consistent process for the reporting of cleared swaps. That means clarifying the reporting obligations of the clearinghouse where the swap is cleared. If adopted by the Commission, this clarification will help ensure that there are not multiple records of a swap that can lead to erroneous double counting, and that accurate valuations of swaps are provided on an ongoing basis. It will eliminate unnecessary reporting requirements. It will help to reduce reporting costs and improve the quality of swap data. And it will improve the Commission's ability to trace swaps from execution through clearing.

The CFTC is taking other actions to eliminate reporting certain obligations when unnecessary. For example, the Commission has proposed eliminating the obligation of commercial participants to report trade options to SDRs, as to ensure the benefits outweigh the costs.

Further, CFTC staff has eliminated the Index Investment Data report, which we produce monthly. This is a survey of index-related holdings of certain traders and dealers. The report was started before our current swap reporting rules were implemented.

Enforcing Reporting Obligations. Equally important to our data efforts is the need to enforce reporting obligations. For those industry participants who do not make timely, complete and accurate reporting, the Commission has carried out enforcement actions. Recently, the Commission fined a major global bank $2.5 million for repeated failures to comply with swap reporting obligations, including failing to report swaps and failing to correct errors in its reporting. And since the beginning of 2014, the CFTC has brought actions against six other institutions, including other major banks and an exchange, for various types of reporting violations. Promoting compliance in recordkeeping and reporting, and holding those who are not in compliance accountable, remains an important priority.

Conclusion

Thank you, Mr. Chairman and members of this Committee. Let me conclude by reiterating that this swap data reporting effort is a significant, global undertaking. As with any such effort, completing it properly will take time.

However, there should be no doubt that this is a priority and the Commission has made substantial progress. During the crisis, regulators and market participants were unaware of what the swaps market truly looked like. Today, we have much greater transparency into those markets, which benefits regulators, lawmakers and market participants alike. As the CFTC refines the data and reporting system over time, we will further enhance that transparency and thereby, the resiliency of our financial system.

Thank you for again for inviting me. I welcome your thoughts and questions.