

September 22, 2011

Committee on Payment and Settlement Systems of the Bank for International Settlements  
Technical Committee of the International Organization of Securities Commissions

RE: Comments on *Report on OTC derivatives data reporting and aggregation requirements*

Dear Sir/Madam:

The Japanese Bankers Association would like to express its gratitude for the opportunity to comment on the *Report on OTC derivatives data reporting and aggregation requirements* published for consultation by CPSS and IOSCO on August 24.

We look forward to our comments being considered during the review process and hope that they will be of aid in the finalization of CPSS and IOSCO rules.

**[General Comments]**

- ◇ The clearing of OTC derivatives is centralizing around the world, and we anticipate that the use of central counterparties to settle trades will be widely adopted as a market practice, and when this happens trading through central counterparties will command a considerable share of total trading. If this occurs, it would be possible to achieve the objective of strengthening systemic risk controls just by collecting information via central counterparties, and there would be little additional benefit to the introduction of LEIs.
- ◇ We understand the benefits of introducing and using LEIs, but we also believe that there will be an extremely large number of practical issues to be addressed. LEIs are completely new and there will be significant costs involved in preparing and establishing national institutions to issue LEIs, formulate procedures and make other preparations, and financial institutions using LEIs will need to make significant investments in the development of IT systems. We therefore think that countries should be given a certain degree of discretion regarding the timing of LEI implementation, or if timing is to be uniform, then it should be geared to the countries requiring the longest amounts of time for preparation.

- ◇ We believe that coverage should for the foreseeable future be limited to OTC derivatives and similar instruments. Study should be given to expansion to other instruments (securities, funds transactions, funds transfer transactions etc.) at some point in the future, but this should move forward after having adequately assessed the effectiveness of LEIs. As a first stage, we think there should be explicit limits on the instruments covered.

### **[Specific Points]**

- ◇ The report presents two types of reporting methods (functional approach/data field approach) as well as a combination of the two. Different approaches will result in different compliance issues, and we believe the decision on which approach to adopt should be made in light of a comprehensive study of participant cost burdens and feasibility, etc. (3.1).
- ◇ The report states that LEIs will primarily cover financial institutions. An expansion in coverage would require a large amount of preparatory time (4.5.1).
- ◇ The data reported via LEIs would include information that is extremely important to the reporting financial institution. Purposes of use should therefore be restricted to the absolute minimum necessary, and careful administration will be required to rigorously ensure that information is not used for other than stated purposes (5.1.5).
- ◇ Steps need to be taken to ensure that the governance of LEI issuing institutions is fair and transparent. For example, requiring the participation of neutral experts and representatives of competent authorities, or regular disclosures of administrative expenses and income (5.2.1).
- ◇ With respect to TR reporting, the report presents items in a standard format. Some of them may result in substantial compliance costs for the industry as a whole depending upon the nature and type of instrument traded. Such costs would include system investments, for example. We therefore see the need for a full discussion of reporting items, frequencies and timing and their feasibility. More flexible treatment will be required for items for which system adaptations are more difficult, for example, waiving reporting for trades that do not meet a certain threshold, or expanding the scope of reported trades in phases. Such measures must take account of the circumstances of individual countries. There is also a need for a sufficiently long transition period and flexible treatment for items related to the valuation of market values and security values because individual financial institutions may use different computational logic and there

will be heavy burdens from attempts to impose uniform logic on the industry as a whole (Annex 2).

We anticipate that the following items will entail large burdens:

- Data elements necessary to determine market value of transaction
- Initial Margin Requirement
- Maintenance Margin Requirement
- Variation Margin
- Long Option Value
- Short Option Value

We see the need for the following items to be more clearly defined:

- Parent Counterparty
- Grade (Commodity derivatives)
- A description of the payment streams of each counterparty

Respectfully,

The Japanese Bankers Association