

November 16, 2015

**Comments on *Proposal To Amend the Definition of
“Material Terms” for Purposes of Swap Portfolio Reconciliation,*
issued by the Commodity Futures Trading Commission**

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), would like to express our gratitude for this opportunity to comment on: *Proposal To Amend the Definition of “Material Terms” for Purposes of Swap Portfolio Reconciliation* (RIN 3038-AE17), issued on September 22, 2015 by the Commodity Futures Trading Commission (“Commission”).

We respectfully expect that the following comments on questions in the proposal will contribute to your further discussion.

1. p.57132, Question (1):

Should the Commission amend its regulations to provide relief identical to that granted in CFTC Letter No. 13–31?

Alternatively, should the Commission amend § 23.500(i)(1) so that counterparties only have to exchange the “material terms” (which would not include the Proposed Excluded Data Fields) of swaps? Or, lastly, should the Commission adopt its current proposal which is to only remove the Proposed Excluded Data Fields from the definition of “material terms” that counterparties must resolve for discrepancies pursuant to § 23.500(i)(3)?

(Our comment)

JBA recommends that the Commission amends § 23.500(i)(1) so that swap counterparties only have to exchange the “material terms” for swaps.

(Rationale)

This differs from the Commission’s current proposal in that it effectively removes the Proposed Excluded Data Fields (“Excluded Fields”) from the data exchange process under § 23.500(i)(1). As stated by the Commission, the current practice of many Swap Dealers (“SD”) and Major Swap Participant (“MSP”) is to not include the Excluded Fields in the set of exchanged terms. Since the Excluded Fields are not part of the portfolio reconciliation process and any discrepancies arising from such Excluded Fields are not resolved, JBA strongly believes that including such information would create an unnecessary operational burden while providing limited

benefit. The presence of the Excluded Fields does not aid in the identification and reconciliation of a transaction and the omission of the Excluded Fields do not hinder the ability to readily identify a transaction.

2. p.57132, Question (2):

Should the Commission's Proposed Excluded Data Fields not include the execution and SDR submission timestamps for uncleared swaps? Please explain why or why not.

(Our comment)

Execution and Swap Data Repositories ("SDR") submission timestamps for uncleared swaps should be included in the Commission's Proposed Excluded Data Fields.

(Rationale)

The beneficial value for requiring execution timestamp data and SDR submission timestamp data is extremely limited.

Neither timestamp data provides any value after the date of execution. Execution timestamps are already reported to the SDR and is part of the SDR's reporting ticker. The SDR timestamp is then captured by the SDR and varies between each party to the transaction, thus potentially, creating discrepancies which can never be resolved during reconciliation.

3. p.57132, Question (3):

Should the Commission's Proposed Excluded Data Fields include an indication of the election of the clearing exception in CEA Section 2(h)(7) and/or the identity of the counterparty electing such clearing requirement exception? Please explain why or why not.

(Our comment)

The Commission should include the election of the clearing exception in CEA Section 2(h)(7) and the identity of the counterparty electing such clearing requirement exception as part of the Proposed Excluded Data Fields.

(Rationale)

Counterparties are solely involved with making their own clearing exception elections. There would not be any discrepancies since SDs and MSPs will not object to a counterparties' election as it is the counterparties' own representation to make. Furthermore, the need for providing additional counterparty identity information is redundant to the data exchange and reconciliation process.

4. p.57132, Question (7):

Should the Commission amend §23.500(g) so that the term, “material terms,” is defined as all terms of a swap required to be reported in accordance with part 45 of the Commission regulations other than the Proposed Excluded Data Fields, as proposed? Please explain why or why not.

(Our comment)

Yes. 23.500(g) should be amended as proposed.

(Rationale)

The Commission should remove any ambiguity for fields that are covered under the Proposed Excluded Data Fields so that they are specifically excluded from the defined term, “Material Terms”.

5. p.57132, Question (9):

Where are the cost savings realized by not having to resolve discrepancies in the Proposed Excluded Data Fields?

If any other alternative approach should be considered, what cost savings would be realized by such alternative approach? Commenters are encouraged to quantify these cost savings.

(Our comment)

The removal of the data reconciliation requirement of the Proposed Excluded Data Fields will generate significant cost savings.

(Rationale)

This is especially important for smaller entities that do not have large operations and facilities. Although large investments have been made to automate many processes, the reconciliation process can require a tremendous amount manual analysis. Many of the fields under the Proposed Excluded Data Fields are not readily reconcilable, thus, creating enormous economic burdens for swap parties involved.

JBA urges the Commission to include execution timestamps, SDR submission timestamps, and clearing exception elections as part of the Proposed Excluded Data Fields.

6. p.57135, §23.500 Definitions. (g) Material Terms

(Our comment)

The purpose of Swap Portfolio Reconciliation should be described clearly as “to ensure effective confirmation between counterparties and to maintain accuracy of

record on details of the transaction”.

Also it should be stipulated that it requires reconciling only important fields, given that details of the transaction confirmed at the execution.

(Rationale)

Portfolio Reconciliation Final Rule p.55926 (§23.502) stipulates as follows.

"Portfolio reconciliation is a post-execution processing and risk management technique that is designed to: (i) identify and resolve discrepancies between the counterparties with regard to the terms of a swap either immediately after execution or during the life of swap; (ii) ensure effective confirmation of terms of the swap; and (iii) identify and resolve discrepancies between the counterparties regarding the valuation of the swap"

We would suggest setting reconciliation fields based on this statement.

Also we believe accuracy of trade reporting should be ensured by provision for trade reporting not by regulations for portfolio reconciliation which set the definition of Material terms as "all terms of a swap required to be reported in accordance with part 45" (§23.500(g)).