Consultation paper - Transaction Reporting on OTC Derivatives and Extension of the Scope of Transaction Reporting Obligations

Introduction

Global Banking & Markets, a Division of The Royal Bank of Scotland Group (RBS group) welcomes the opportunity to respond to the Committee of European Regulators (CESR)'s Consultation Paper on Transaction Reporting on OTC Derivatives and Extension of the Scope of Transaction Reporting Obligations.

Global Banking & Markets is the arm of the RBS Group that delivers financing, investing and risk management solutions to large corporations, financial institutions and governments around the world. We have strong and long-term relationships with many of the world's leading companies and institutions.

We offer an extensive range of products including risk management, debt advisory, debt capital markets, interest rate, currency, credit, equities, foreign exchange, commodities, treasury and investment products, M&A and advisory services.

The Client base of GBM comprises of: Major multinationals; Important domestic champions with complex funding needs; Large, sophisticated Banks, Insurers, Hedge Funds & Asset Managers that operate globally; and Governments and Public Sector.

Question 1

Do you agree with the solution proposed by CESR for the organisation of transaction and position reporting on OTC derivatives?

We agree with the solution proposed by CESR for the organisation of transaction and position reporting on OTC derivatives as set out in Option 2.

It is seen as sensible to work a solution around the existing market and we agree that existing Trade Repositories (TRs) and central counterparties (CCPs) should be utilised as reporting mechanisms. We agree that TRs should be recognised under MiFID Article 25(5) as a valid third-party reporting mechanism.

We recognise that extensive use is already made to report transactions through the use of TRs across the Globe. OTC credit derivatives are already reported through the services provided by US owned company The Depository Trust and Clearing Corporation (DTCC) and Interest Rate Derivatives are reported via the Interest Rate Derivatives Trade Reporting Repository (TRR). In addition to these well established TRs, we have recently learnt of proposals of one European establishment to set up a European Trade Repository.

We note that some of the existing TRs and CCPs will need to review their existing operational capabilities in light of the new proposed requirements and that in many cases further investment on internal infrastructure will be necessary. In some cases the investment will be considerable as many TRs are simplistic in nature and will currently not be in a position to meet the new proposals.

Similarly many investment firms will not yet be in a position to meet the proposed requirements and the additional cost to internal infrastructure will be a concern. Although this is not seen as such a concern for UK firms as most UK firms already have the operational capabilities to meet the proposals due to the FSA's existing transaction reporting requirements which are similar in many ways. The proposed changes are seen as having more impact on our European colleagues.

For the proposed requirements and the effective implementation of Option 2 to take place, care will need to be taken to ensure that a fragmented system of reporting does not develop and that strong governance over the proposed transaction reporting infrastructure is established.

In essence we seek a transaction reporting system that is simplistic, robust and avoids any overlap or inefficiencies.

Question 2

Do you have any other views on the possible ways to organise transaction and position reporting on OTC derivatives?

In an ideal world we would prefer to see a streamlined system built specifically to capture and report transactions. A system built and designed to reflect the existing needs of our evolving European market would need to be robust enough to capture all transactions and to provide one feed on information.

Such a purpose built, streamlined and centralised reporting structure would bring consistency of information to the market and provide one point of contact for all information relating to transaction reporting. Benefits resulting from centralisation include: economies of scale, quality of data, transparency and strong, robust governance and enforcement.

A centralised body to process transaction data would also give greater protection over data for the purposes of data protection and privacy issues. We are aware that a current concern for existing TRs is client confidentiality.

Question 3
Do you agree with the extension of the scope of transaction reporting obligations to the identified instruments?

We agree with the extension of the scope of transaction reporting obligations to the identified instruments, many of which are already caught by the UK FSA's reporting requirements. We welcome the proposal to extend the scope of the transaction reporting requirements across all Member States to increase transparency and to cover all transactions that may potentially constitute market abuse.

It would be our preference for any pan-European transaction reporting regime to be simplistic in its application, use and implementation. The development of a streamlined process to report all transactions is recognised as needed and the consistent use of trade repositories, MTFs, regulated markets is to be welcome.

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