

Network Transparency, Data Standards, and SDRs

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OFR/FSOC Annual Conference

*Swap and Trade Repository: Data Standards
and Data Gaps*

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What Is A SIFI?

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Importance Varies, Depending On:

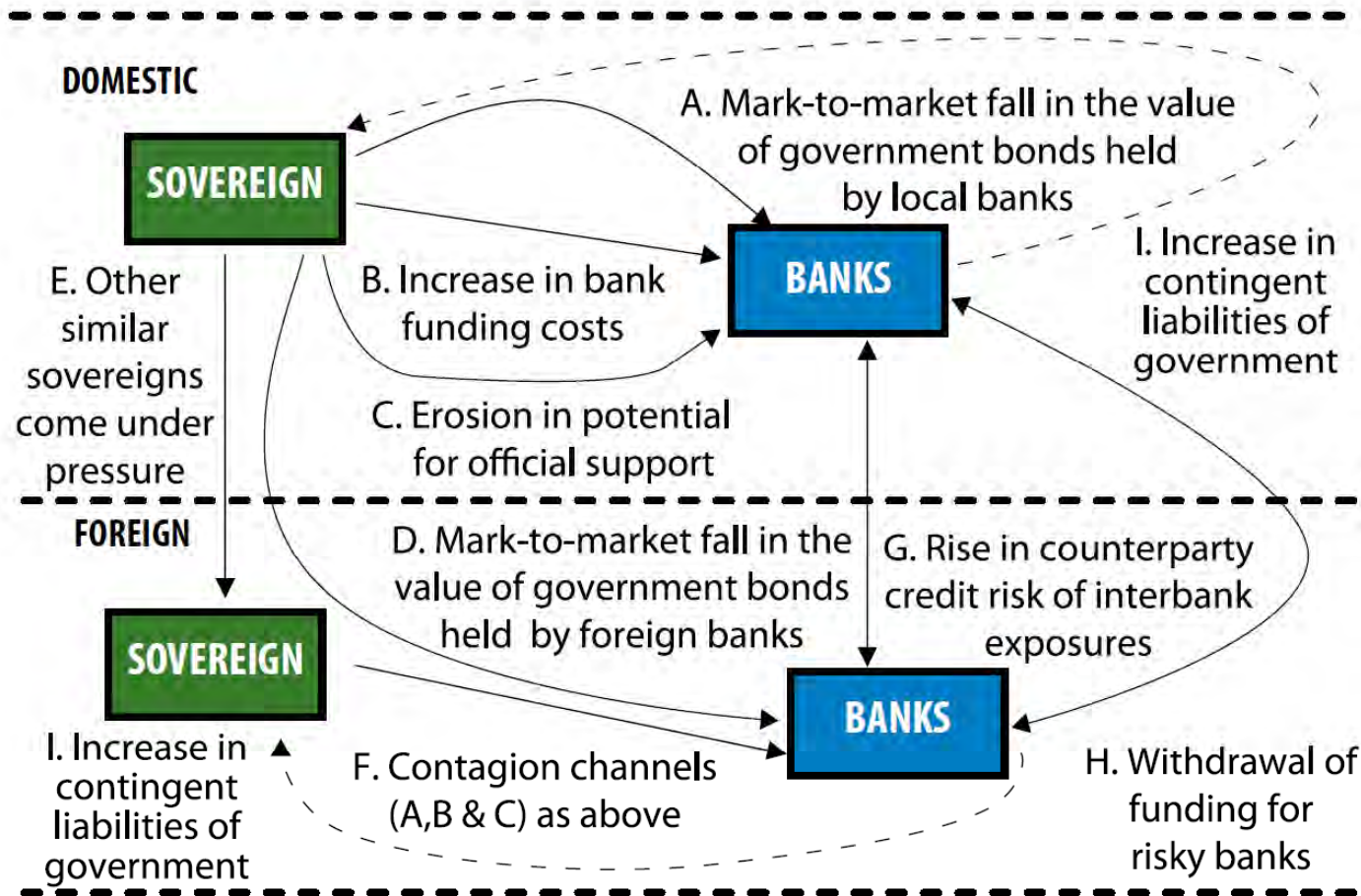
- Individual characteristics
- Relation to others
- State of the system
- Rules of the game

Importance Can Change **Quickly**

- Dynamic across time and circumstances
- Can regulators and regulation keep up?

The Financial System Is Complex

Figure 1.5. Spillovers from the Sovereign to the Banks and Banks to Sovereigns



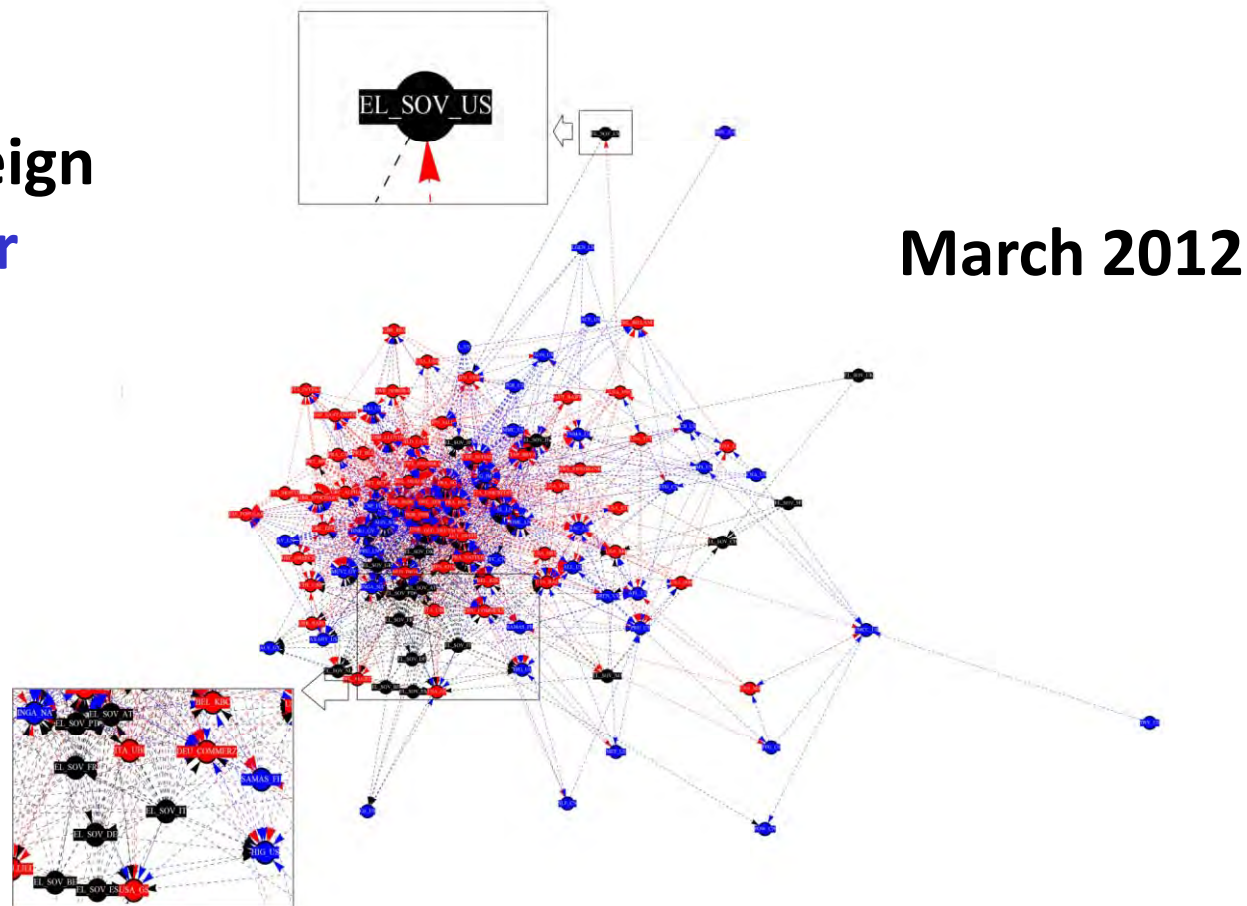
Source: IMF GFSR (2010)

An Example: Sovereign Debt and Credit Risk

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Granger-Causality Network of CDS-Based ELR Billio, Getmansky, Gray, Lo, Merton, Pelizzon (2013)

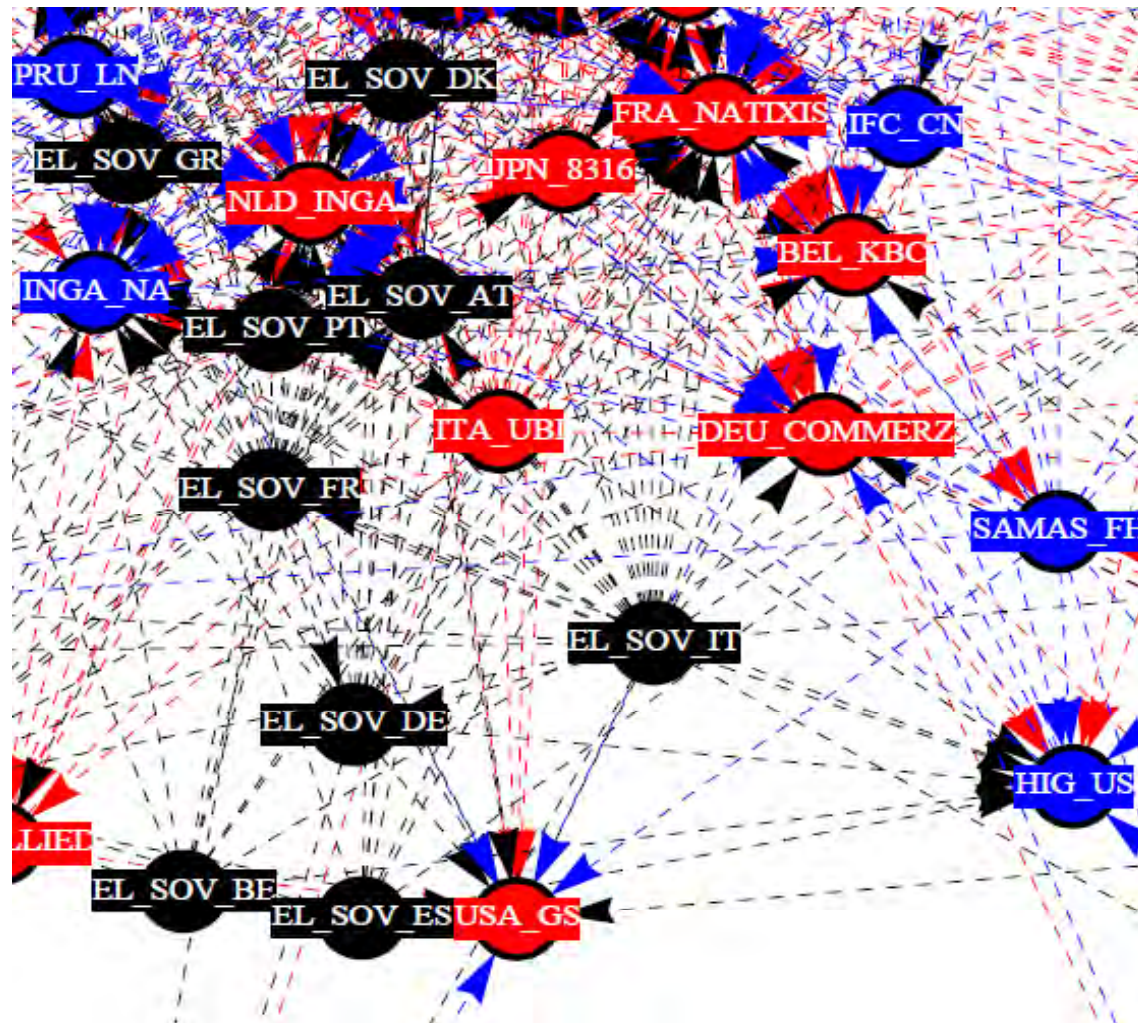
- = Sovereign
- = Insurer
- = Bank



An Example: Sovereign Debt and Credit Risk

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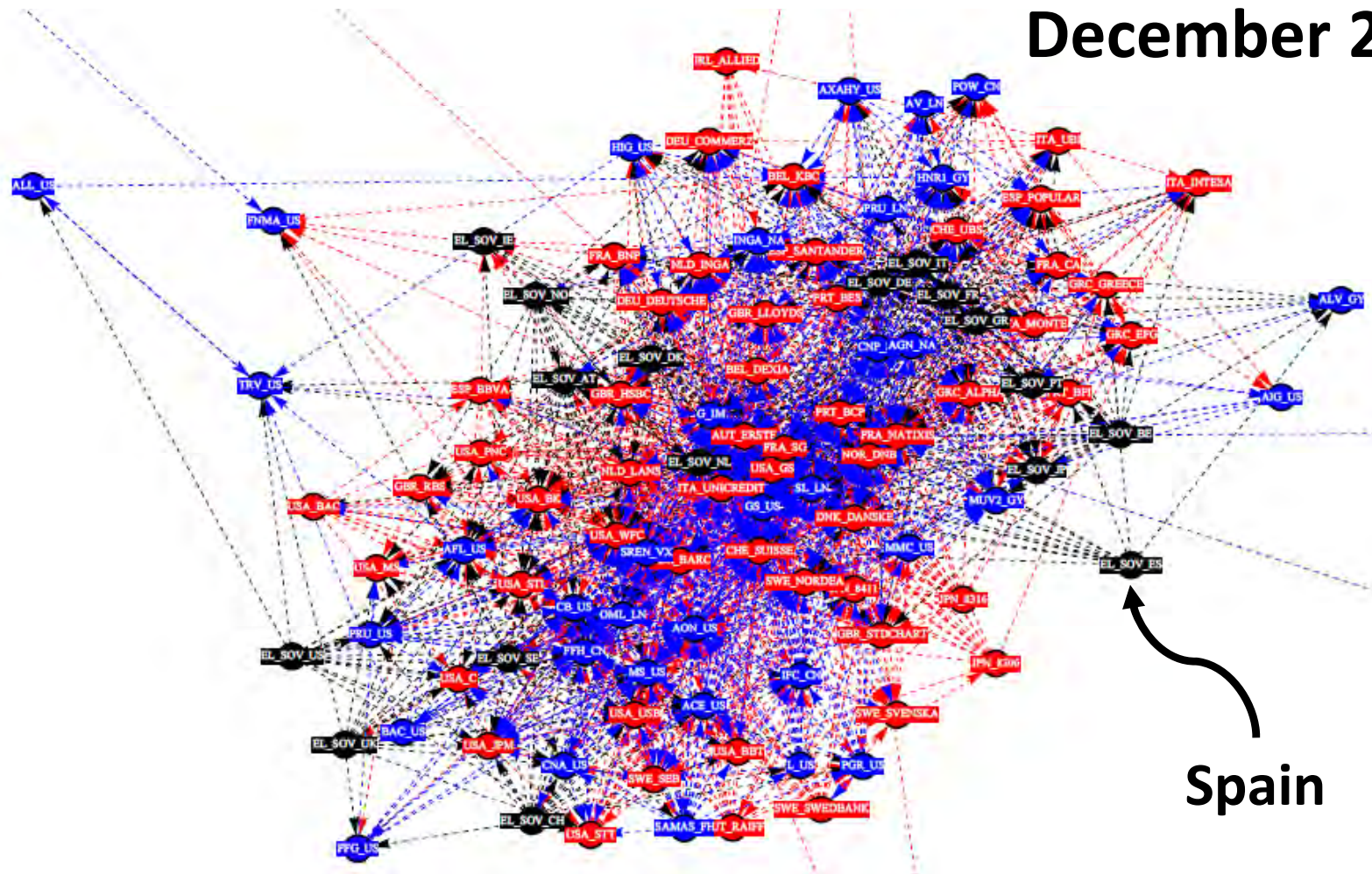
March 2012



An Example: Sovereign Debt and Credit Risk

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December 2011



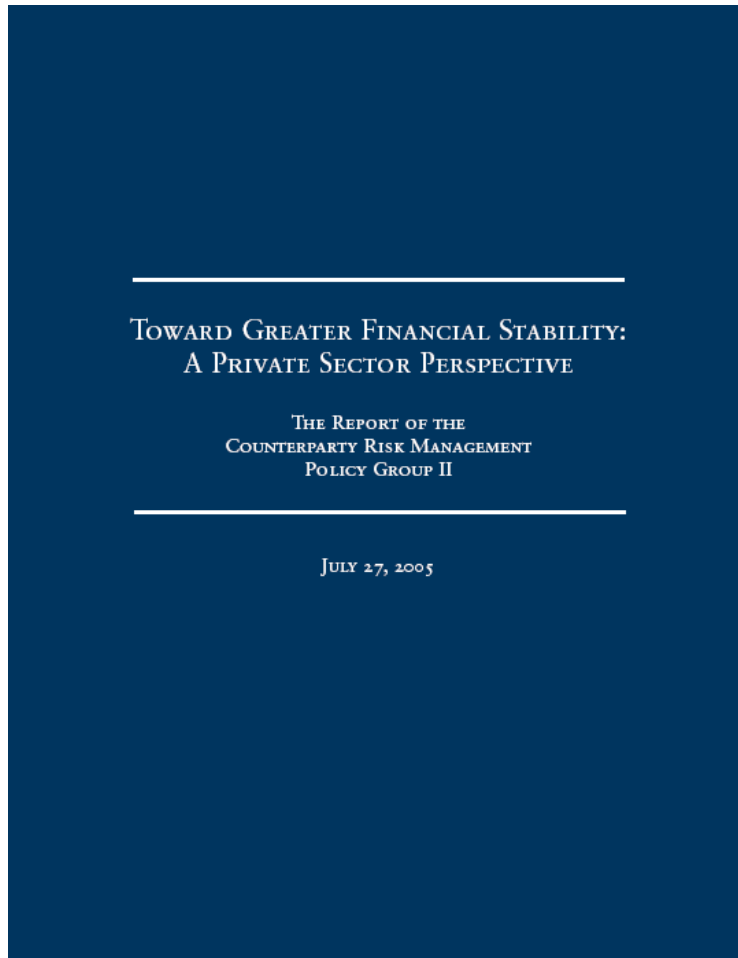
But These Are All Indirect Measures

- Dodd Frank Act, Title VII:
 - Minimize systemic risk of derivatives trading
 - Create transparency in derivatives markets
 - Provide credit protection for derivatives traders
- Data exist to map actual swaps network
- But accessing it is not trivial
- Contract terms can be complex and critical, e.g., credit support annexes (recall AIG)
- Data standards are the starting point
- You can't manage what you don't measure



- Five years after the financial crisis, firms' progress toward consistent, timely, and accurate reporting of top counterparty exposures fails to meet both supervisory expectations and industry self-identified best practices. The area of greatest concern remains firms' inability to consistently produce high-quality data.
- Supervisors of systemically important financial institutions and other firms that manage significant numbers or volumes of counterparty exposures should prioritize this effort within the scope of their own work. They should commit to impressing on their firms the importance and expectation of being able to quickly and accurately aggregate top counterparty exposures.

Industry Assessment of Systemic Risk, July 2005:



“In approaching its task, the Policy Group shared a broad consensus that the already low statistical probabilities of the occurrence of truly systemic financial shocks had **further declined over time.**”

– CRMPG II, July 27, 2005, p. 1

But CRMPG II Also Contained:

...Recommendations 12, 21 and 22, which call for urgent industry-wide efforts (1) to cope with serious “back-office” and potential settlement problems in the credit default swap market and (2) to stop the practice whereby some market participants “assign” their side of a trade to another institution without the consent of the original counterparty to the trade. (CRMPG II, July 27, 2005, p. *iv*)

Firms Represented in CRMPG II:

- Bear Stearns
- Citigroup
- Cleary Gottlieb
- Deutsche Bank
- GMAM
- Goldman Sachs
- HSBC
- JPMorgan Chase
- Merrill Lynch
- Morgan Stanley
- Lehman Brothers
- TIAA CREF
- Tudor Investments

Thank You!