Network Transparency, Data Standards, and SDRs

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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

- A. Mark-to-market fall in the value of government bonds held by local banks
- B. Increase in bank funding costs
- C. Erosion in potential for official support
- D. Mark-to-market fall in the value of government bonds held by foreign banks
- E. Other similar sovereigns come under pressure
- F. Contagion channels (A, B, & C) as above
- G. Rise in counterparty credit risk of interbank exposures
- H. Withdrawal of funding for risky banks
- I. Increase in contingent liabilities of government

Source: IMF GFSR (2010)
An Example: Sovereign Debt and Credit Risk

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

● = Sovereign
● = Insurer
● = Bank

March 2012
An Example: Sovereign Debt and Credit Risk

March 2012
An Example: Sovereign Debt and Credit Risk

December 2011

Spain
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.
Lessons From The Financial Crisis?

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.”

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)
Lessons From The Financial Crisis?

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

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Thank You!