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Government's Governance is Tested in the Emerging Economies, etc.

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2.Overview of Development in Financial Regulations (Trends & Topics)

 # Derivative Regulatory Reforms Enter in a New Stage (Koichi Iwai, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

One of the cornerstones of regulatory reforms after the crisis has been OTC derivative market reform. The reform consists of five major areas — reporting requirement, central clearing, capital requirement, margin requirement, and trading platform framework —, and has been mainly led by global regulatory bodies and US/EU authorities . In July, Financial Stability Board published progress reports on the implementation of the OTC derivatives market reforms, indicating that although progress differs amongst jurisdictions, the overall reforms are "well in progress". Hence, we could say that financial institutions have made certain progresses in addressing these regulatory developments.

Derivative market reforms are currently shifting to the next stage, and financial institutions and a wide range of market participants are now facing the 'next issues'. For example, Committee on Payments and Market Infrastructures

(CPMI) and International Organization of Securities Commissions (IOSCO) have subsequently published consultative reports in August and September, “Harmonisation of the Unique Transaction Identifier (UTI)” and “Harmonisation of key OTC Derivatives Data Elements (other than UTI, Unique Product Identifier)”. Both documents compiles technical concepts on formulation/application of unique identifiers for each OTC derivative transaction. Regulators believe that they could leverage these identifiers to evaluate/monitor the accumulated systemic risk in the financial system.

More importantly for market participants, a considerable amount of practical measures including the development of IT system will be needed because these two documents introduced the following issues on the table.

(1) UTI (identifier to specify each derivatives transaction) must include: ‘jurisdiction in which UTI is used/reported’, ‘algorithm for UTI generation’, ‘Entity that generates the UTI’, ‘Counterparties to the transaction’, ‘Date of trade’, and etc.
(2) UTI need to be revised in accordance with the sequence of the life-cycle events. For example, UTI must be revised when past transaction is modified, clearing occurs, or block trade is subdivided, and etc.
(3) UTI must maintain characteristics such as ‘Neutrality’, ‘Uniqueness’, ‘Consistency’, ‘Persistence’, ‘Traceability’.

As the discussion regarding transaction identifiers is progressing, derivative market participants will be asked to apply these identifiers such as UTI into trading practices. Depending on what technical requirements are to be established, at least for the financial institutions, it would be necessary to adjust and upgrade their trading /risk data, IT systems related such as management information systems, and possibly risk management practices. In other words, UTI would poses a significant impact on a wide variety of practices at financial institutions. Therefore, financial institutions must clearly understand and follow the discussion regarding the technical requirements for UTI, and must respond to it accordingly.