

Managing Market Data for ETRM Solutions: Post Dodd Frank

Allegro & LIM Webinar

The webinar will begin shortly

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Risk Management
Commodity Trading
Physical Logistics
Regulatory Compliance



Managing Market Data Post Dodd Frank

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LIM, a Morningstar company**

Preparing for the Changes

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Allegro Development**

Questions

Market Data Sources and Applications For ETRM

- ▶ Infrastructure, Contracts and Counterparties
- ▶ Pre Deal Analysis
- ▶ Deal Capture
- ▶ Scheduling, Operations and Logistics
- ▶ Risk Management
 - ▶ Market Risk
 - ▶ Operational Risk
 - ▶ Counterparty Credit Risk
 - ▶ Regulatory Risk
- ▶ Settlement and Invoicing



Market Data Management Challenges

- ▶ Counterparty Data is Inconsistent
- ▶ Contract Terms Are Not Standard
- ▶ Commodity Names Are Inconsistent
- ▶ Scheduling Operations & Logistics
 - ▶ Complex Interfaces
 - ▶ Frequent Rebalancing



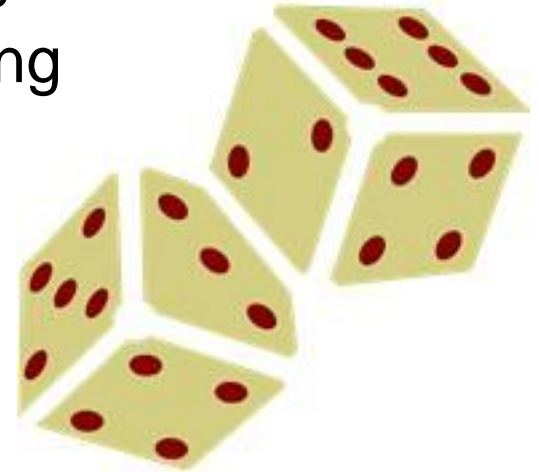
Market Data Management Challenges

- ▶ Deal Capture and Confirmation
 - ▶ Physical Trades
 - ▶ Exchange Trades (Futures & Options)
 - ▶ OTC Cleared Trades
 - ▶ OTC Bilateral – Electronic Platform
 - ▶ OTC Bilateral – Manual
- ▶ Relationships With Intermediaries (Brokers/FCMs etc)



Market Data Management Challenges

- ▶ Risk Management
 - ▶ Valuation Requires Transparency
 - Physical Trades
 - Financial Trades
 - ▶ Multiple Price Sources and Linkages
 - ▶ Counterparty Credit Risk Monitoring
 - ▶ Regulatory Compliance
 - ▶ Desire for Real Time Visibility

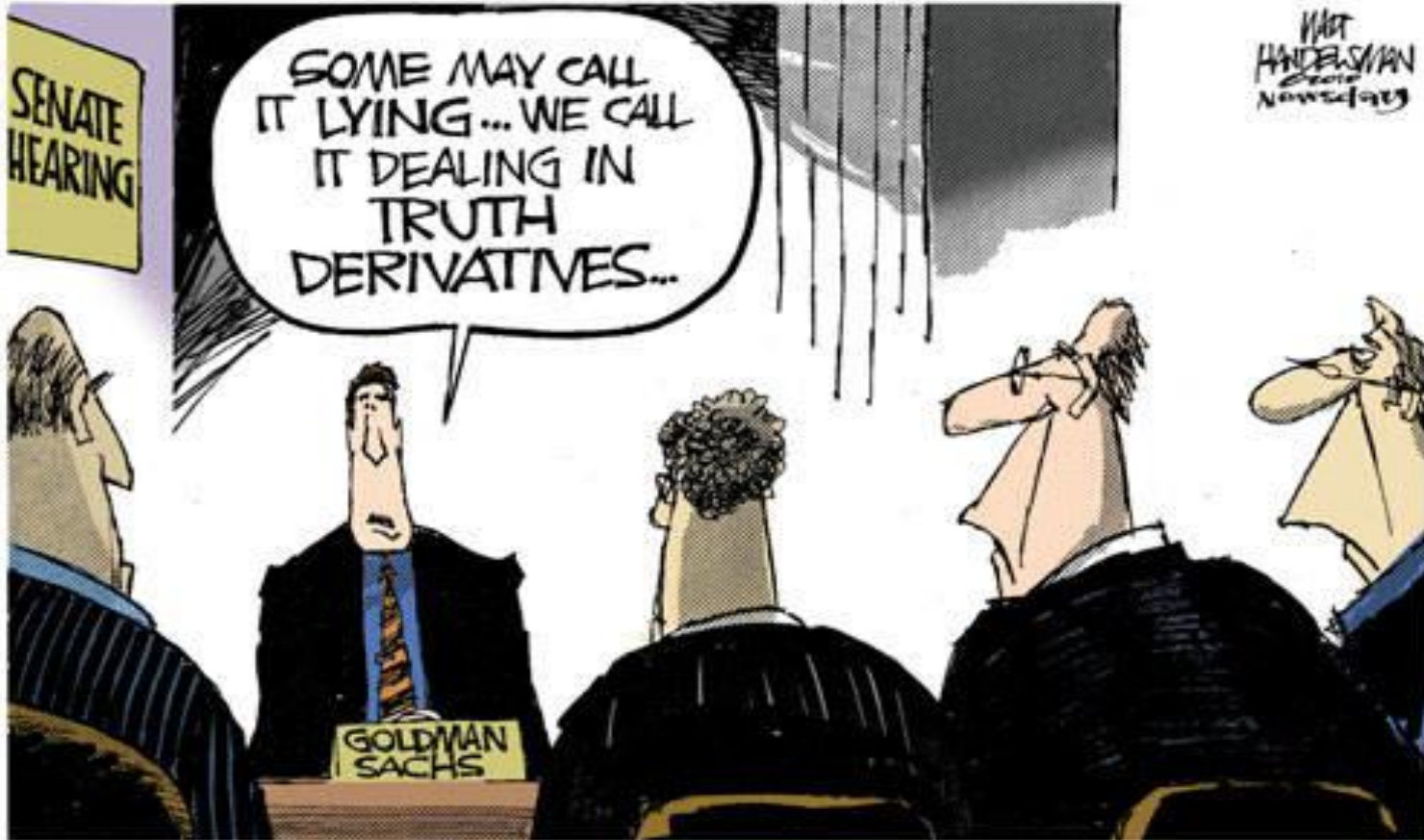


Market Data Management Challenges

- ▶ Settlement And Invoicing
 - ▶ Need Accurate Pricing



Dodd Frank Reform



Dodd Frank Reform & Market Data Management

- ▶ Dodd Frank Overall Goals are
 - ▶ Increase Transparency
 - ▶ Reduce Systemic Risk
- ▶ Regulation of OTC Swaps 116 Pages of Rules
 - ▶ Registration of Participants
 - ▶ Executing Transactions
 - ▶ Clearing Transactions
 - ▶ Reporting Transactions (Near Real Time)
 - ▶ Implementation Delayed: Dec 31, 2011



Dodd Frank Reform & Market Data Management

- ▶ Registered Participants
 - ▶ Swap Dealers
 - ▶ Major Swap Participants
 - ▶ None of the Above
- ▶ Trade Execution on Registered Exchanges
 - ▶ Swap Execution Facilities
- ▶ Mandatory Clearing
 - ▶ Derivatives Clearing Organizations
- ▶ Mandatory Reporting
 - ▶ Swap Data Repositories



Dodd Frank Reforms & Market Data Management

- ▶ Primary Impacts on ETRM System Data
 - ▶ Counterparties
 - For OTC Swaps only
 - × New Classes of CP
 - × Unique CP IDs including Corp Events
- Counterparty Risk Reduced Significantly
- × Reduced Credit Risk Function
 - × End-user Exemption Complicates



Dodd Frank Reforms & Market Data Management

- ▶ Primary Impacts on ETRM System Data
 - ▶ Pre Deal Analysis
 - For OTC Swaps only
 - × More Data Capture
 - × More Real Time Screens
 - × Better Quality



	+2.088
	+5.000
	+1.500
	+1.125
	+1.062

Dodd Frank Reforms & Market Data Management

- ▶ Primary Impacts on ETRM System Data
 - ▶ Deal Capture
 - For OTC Swaps Only
 - × All Electronic
 - × Unique Swap IDs
 - × Unique Product IDs
 - ▶ Confirmation
 - For OTC Swaps Only
 - × Delegated to SDs and MSPs

Dodd Frank Reforms & Market Data Management

- ▶ Reporting Requirements
 - ▶ Derivative Clearing Organizations and Swap Data Repositories to provide daily position reports for CFTC by 9:00 am following day
 - ▶ Trades to be reported to Swap Data Repositories in near real time (Responsibility of SD and MSP but Counterparties are Obligated to Track)

Dodd Frank Reforms & Market Data Management

- ▶ The legislation defines “real-time public reporting” to mean:
 - ▶ Reporting “data relating to a swap transaction, including price and volume, as soon as technologically practicable after the time at which the swap transaction has been executed.”

Dodd Frank Reforms & Market Data Management

- ▶ The real-time reporting requirements apply to:
 - ▶ All swaps, including those swaps executed on
 - A registered swap execution facility (SEF)
 - A registered designated contract market (DCM)
 - Those swaps executed bilaterally between counterparties and not pursuant to the rules of a SEF or DCM (“off-facility swaps”)
- ▶ The Commission Acknowledges Likely Delay in Setup

Dodd Frank Reforms & Market Data Management

- ▶ Swap Data Repository:
 - ▶ Section 727 of the Dodd-Frank Act requires that each swap, either cleared or uncleared, shall be reported to a registered SDR.
 - ▶ Section 729 provides for reporting to the Commission of swaps neither cleared nor accepted by any SDR..... counterparties to such swaps must maintain books and records (5 years) pertaining to their swapsand must make these books and records available for inspection by the Commission or other specified regulators if requested to do so.

Dodd Frank Reforms & Market Data Management

- ▶ The Commission is proposing in § 39.6(b) to require non-financial entities to notify the Commission each time the end-user clearing exception is elected by delivering specified information to an SDR in the manner required by proposed rules for swaps data recordkeeping and reporting
- ▶ Required to provide evidence of the risk management in place in lieu of clearing

MINIMUM PRIMARY ECONOMIC TERMS DATA—OTHER COMMODITY SWAPS

Sample data field	Comment
The Unique Swap Identifier for the swap	As defined in § 45.4.
The Unique Counterparty Identifier of the reporting counterparty	As defined in § 45.4.
The Unique Counterparty Identifier of the non-reporting party	As defined in § 45.4.
The Unique Product Identifier assigned to the swap	As defined in § 45.4.
Contract type	<i>E.g.</i> swap, swaption, option, <i>etc.</i>
Execution timestamp	Time and date of execution.
Quantity	The Unit of measure applicable for the quantity on the swap.
Total quantity	The amount of the commodity for the entire term of the swap.
Settlement method	Cash or physical.
Delivery type	For physical delivery.
Start date	Predetermined start date from which payments will be exchanged.
End-date	Predetermined end date from which payments will be exchanged.
Submission to SDR timestamp	Time and date of submission to the SDR.
Averaging method	The type of calendar days used to calculate price on a transaction.
Payment calendar.	
Buyer pay index	The published price as paid by the buyer.
Seller pay index	The published price as paid by the seller.
Buyer	Party purchasing product, <i>e.g.</i> payer of the fixed price (for swaps), or payer of the floating price (for put swaption), or payer of the fixed price (for call swaption).
Seller	Party offering product, <i>e.g.</i> payer of the floating price (for swaps), payer of the fixed price (for put swaption), or payer of the floating price (for call swaption).
Price	<i>E.g.</i> fixed price, the heat rate value, <i>etc.</i>
Price unit	The unit of measure applicable for the price on the transaction.
Price currency	<i>E.g.</i> ISO code.
Grade	<i>E.g.</i> the grade of oil or refined product being delivered.
Futures contract equivalent	As defined in part 150.
Futures contract equivalent unit of measure	As defined in part 150.
Any other primary economic term(s) of the swap matched by the counterparties in verifying the swap.	

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- ▶ Primary Impacts on ETRM System Data
 - ▶ Scheduling and Logistics For OTC Swaps Only
 - × Dealing With More Exchanges



Dodd Frank Reforms & Market Data Management

- ▶ Primary Impacts on ETRM System Data
 - ▶ Risk Management
 - For OTC Swaps Only
 - × Valuation Becomes Easier
 - × Counterparty Credit Risk Reduced Exposure
 - × Margin Requirements Increase
 - × Reporting Requirements Increase
 - × Real Time Visibility One Step Closer



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- ▶ Primary Impacts on ETRM System Data
 - ▶ Settlement And Invoicing For OTC Swaps Only
 - × Fewer Pricing Errors

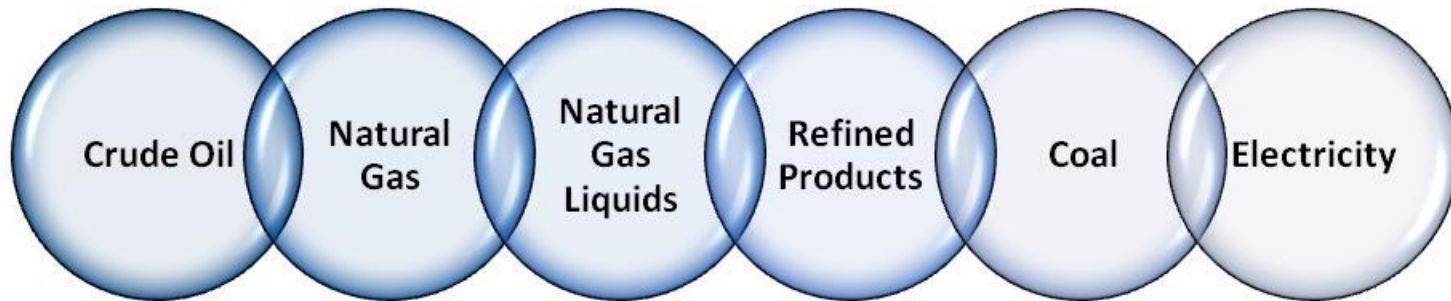


Dodd Frank Reforms & Market Data Management

▶ Summary

- ▶ Changes Only Impact OTC Swaps
- ▶ Transparency Improves
- ▶ Speed of Reporting Will Improve
- ▶ Regulatory Compliance Burden Heavy
- ▶ Standardization Could Spread
 - × Unique IDs for CPs, Swaps and Products
- ▶ Challenges With Physicals and Logistics Remain
- ▶ Level of Industry Readiness is Uncertain...





**Maximizing the value of assets and complex portfolios
of physical and financial energy commodities**

Exploration & Production

- Oil Production
- Natural Gas Production
- Natural Gas Midstream

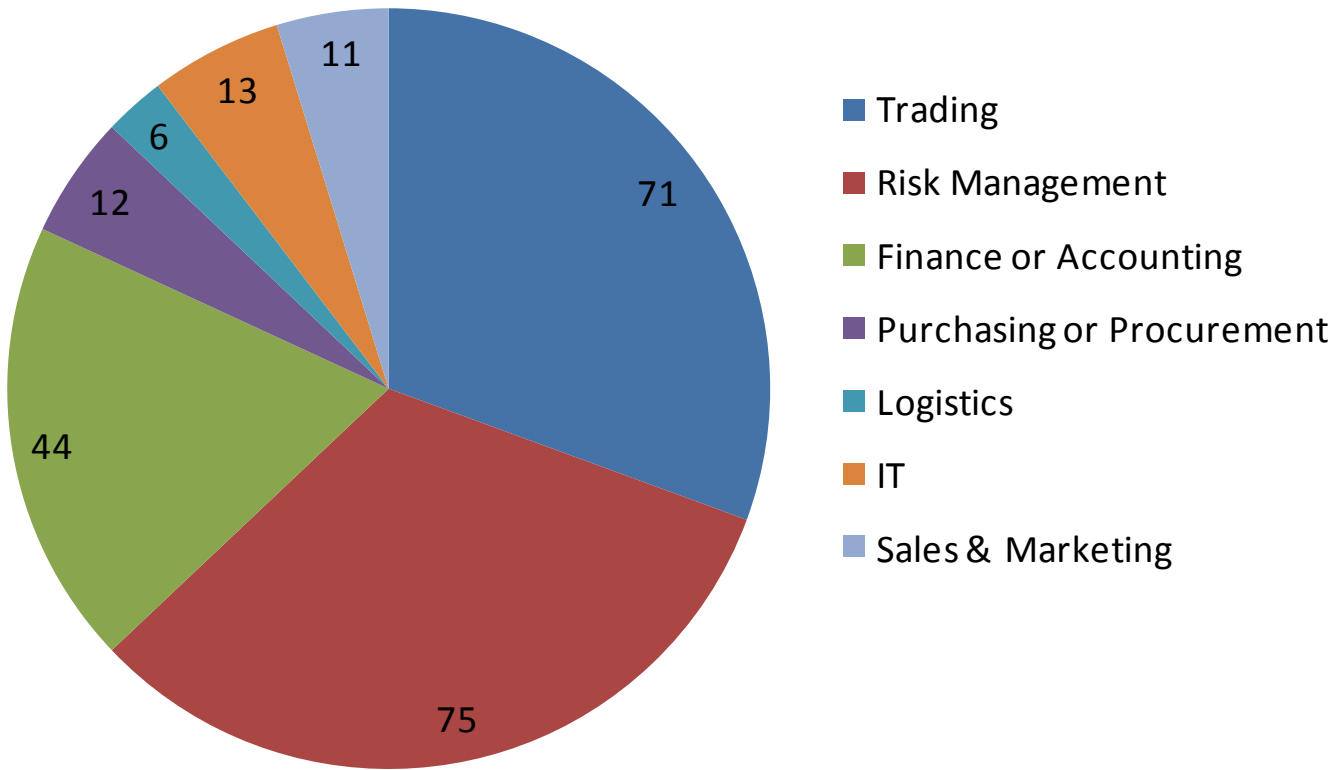
Refining and Marketing

- Crude Oil Trading
- Petroleum Refiners
- Petroleum Trading

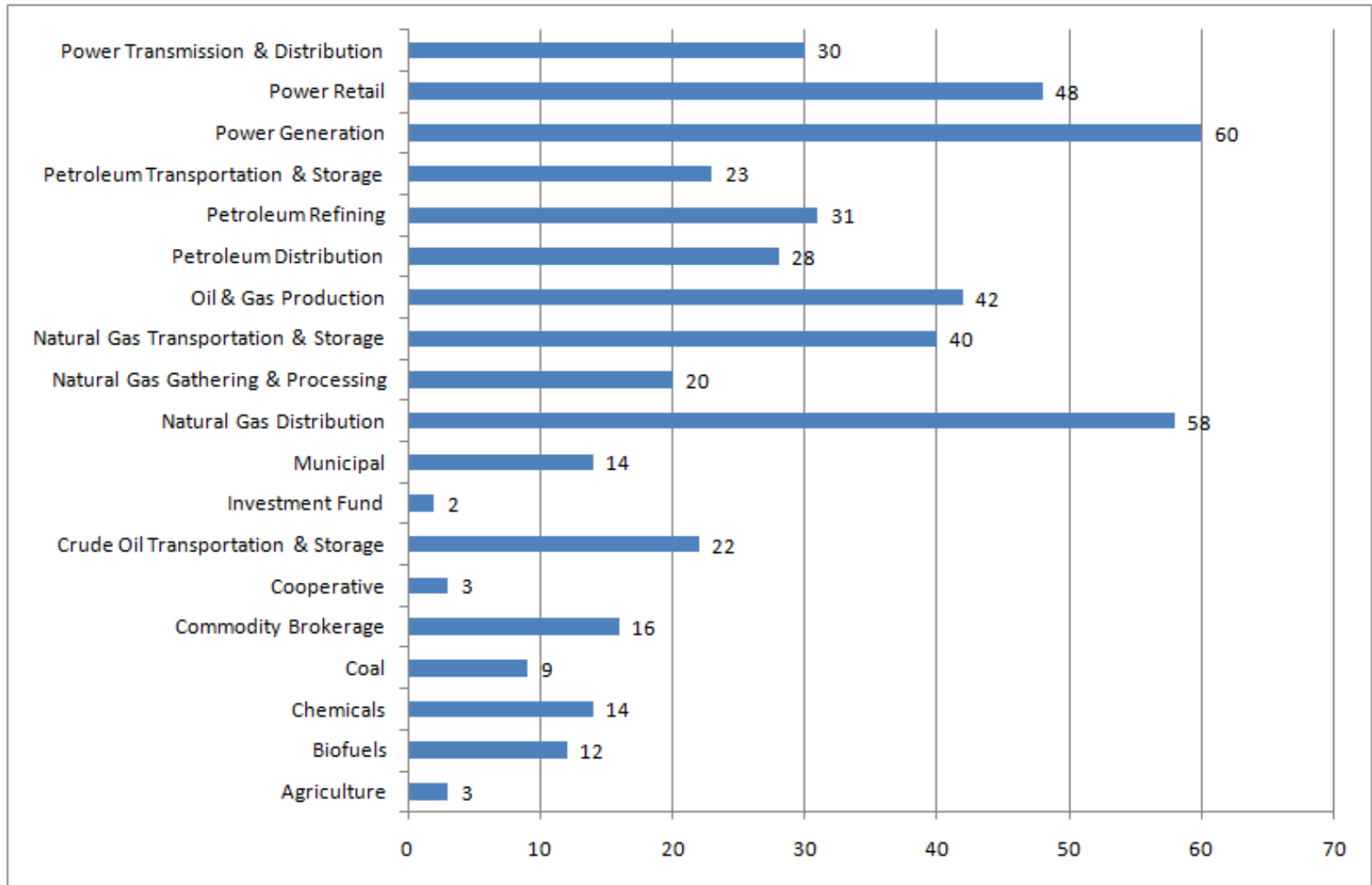
Utilities

- Power Trading
- Power Generation
- Power Transmission & Distribution
- Natural Gas Trading
- Natural Gas Distribution

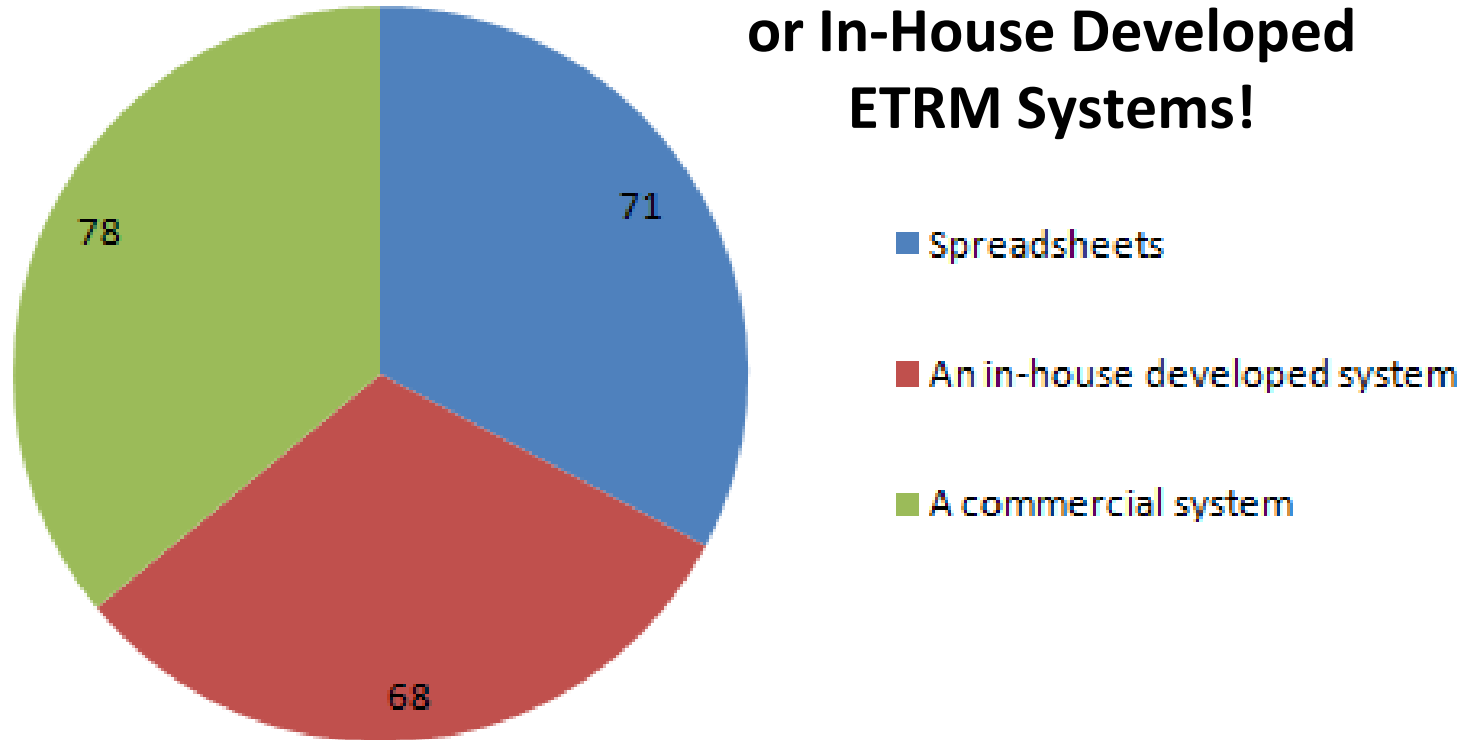
250 Survey Respondents



Respondents: Lines of Business



Two Thirds Rely on Spreadsheets or In-House Developed ETRM Systems!



- ▶ Spreadsheets are not secure, auditable, and are prone to user error
 - ▶ Workflow and approval processes often separate
- ▶ If multiple platforms are used, constant reconciliation of multiple data sources is required
 - ▶ Complex integration links among systems are prone to failure
- ▶ Consolidated reporting in response to new requirements can be complex, expensive, and error prone

- ▶ Transaction reporting will likely be required
- ▶ Position reporting will likely be required
- ▶ Monitoring processes will be seen as best practices
- ▶ Forensic analysis will need to be implemented in an efficient manner
- ▶ Requirements will evolve



- ▶ Are we able to report transactions and positions across the enterprise in an efficient way?
- ▶ Can we implement new workflows, approval processes, limits, and rules?
- ▶ How can we be sure that new operating procedures are followed?
- ▶ Do we have audit trails and the ability to track history, in case questions arise?
- ▶ Is our ETRM system flexible enough to respond to changes with minimum fuss?

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