



# Global Exchanges and Markets Committee

## LSOC Reporting

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## Document History

Revision	Date	Author/Editor	Revision Comments
0.1	6/15/12	Mike Gibson, ICE Ed Gogol, CME Group Ryan Pierce, CME Group Matt Simpson, CME Group	Initial draft.
0.2	6/25/12	Ryan Pierce, CME Group	Updated following June 25, 2012 GExMC meeting: Changed to use Account Summary Report. Clearing Members/FCMs can now send this message to CCPs/DCOs. Added new field HaircutIndicator to Account Summary Report Added existing fields SettlSessID, SettlSessSubID, TransactTime to Account Summary Report Updated elaborations
0.3	7/13/12	Ryan Pierce, CME Group	Updated following July 7, 2012 GExMC meeting: Changed HaircutIndicator to Boolean. Corrected formatting.
<a href="#">ASBUILT</a>	<a href="#">8/8/2012</a>	<a href="#">Lisa Taikitsadaporn</a>	<a href="#">ASBUILT version</a>
<a href="#">ASBUILT</a>	<a href="#">8/9/2012</a>	<a href="#">R. Shriver</a>	<a href="#">Assigned TBDs</a>

## 1 Introduction

This gap analysis addresses new CFTC requirements mandated by the Dodd-Frank Act pertaining to the Legally Segregated Operationally Commingled (LSOC) Model. The LSOC Model applies to cleared swaps, and imposes reporting requirements from Futures Commission Merchants (FCMs).

These regulations go into effect on November 8, 2012. Urgent consideration is requested, given the need for final industry standards so that Derivatives Clearing Organizations (DCOs) and FCMs can implement the necessary changes.

## 2 Business Workflow

According to the CFTC:

*The LSOC Model requires that cleared swaps customer collateral be segregated from the FCM's own property, but permits the cleared swaps collateral of all FCM cleared swaps customers to be kept together pre-bankruptcy in one account. The rules, to the extent applicable, parallel (in updated language) the regulations governing the segregated accounts in which FCMs currently hold futures customer collateral pre-bankruptcy.*

*Following an FCM's bankruptcy, where there is a shortfall in the cleared swaps customer account due to a cleared swaps customer loss that exceeds both the cleared swaps customer's collateral and the FCM's ability to pay, the DCO could only use the collateral attributable to the cleared swaps customers whose portfolios of positions at the DCO suffered losses to meet the loss. Thus, all collateral attributable to cleared swaps customers whose portfolios of positions gained or were "flat" (neither gained nor lost), and the remaining collateral attributable to cleared swaps customers whose portfolios of positions lost, would be immediately available for transfer. Moreover, the DCO would have information that is no more than one business day old tying cleared swaps customers to portfolios of positions, and the DCO itself would maintain the margining methodology that would tie such portfolios of positions to the collateral requirement associated with such portfolios. Even if the DCO decided to liquidate all cleared swaps customer positions, non-defaulting cleared swaps customers would be exposed to less loss. However, if following an FCM's bankruptcy there is a shortfall in the cleared swaps customer account due to an operational issue (for example, there is a shortfall due to negligence, theft or some other mishap), cleared swaps customer positions and related collateral at a DCO may be delivered to the Trustee, or may transferred by the DCO, but, as the Bankruptcy Code requires, each cleared swaps customer would only receive its pro rata share.*

[Source: [http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/sb\\_factsheet\\_final.pdf](http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/sb_factsheet_final.pdf)]

Implementing LSOC requires that the FCM clearing members disclose to the DCO:

1. All cleared swaps positions for each customer account, and
2. The value of collateral posted with the DCO attributable to each customer.

The position reporting messaging defined in the Customer Gross Margin (CGM) Reporting Gap Analysis will meet the first of these requirements.

Meeting the second requirement entails additional extensions to the FIX Protocol. The Account Summary message serves the purpose of reporting the value of collateral. Since different collateral can have different haircuts, an FCM may need to indicate the market valuation both before and after the haircut. Requested changes include adding a new field HaircutIndicator to the component CollateralAmountGrp in the Account Summary message to meet these needs.

Additionally, FCMs may need to identify, within an account, a guarantee fund. For example, if a single customer account has positions in both credit default swaps and interest rate swaps, the FCM may need to report collateral values per guarantee fund. Requested changes include a new PartySubIDType(803) of "Guarantee fund". This is intended for use with PartyRole(452) = Customer Account(24). Note that this proposal does not define specific guarantee fund names.

### 3 Issues and Discussion Points

#### 3.1 HaircutIndicator

The original proposed data type for HaircutIndicator was an integer enumeration. 0 indicated “Before haircut” and 1 indicated “After haircut.” At the July 9, 2012 GTC meeting, it was determined that haircut is a Boolean concept; either a valuation includes a haircut, or it doesn’t. Should further distinction or clarification of the haircut become necessary in the future (e.g. exchange haircut vs. broker haircut), a new field describing the haircut can be proposed.

### 4 Proposed Message Flow

The FCM submits Account Summary messages to the DCO to report the valuation of collateral attributed to each customer account.

The FIX Protocol does not define a message used in response to the Account Summary. Therefore, the DCO does not acknowledge successful submission of LSOC collateral reports in band. The DCO can report any errors out of band, or via the Business Message Reject message.

### 5 FIX Message Tables

#### 5.1 FIX Message AccountSummaryReport

To be completed at the time of the proposal – all information provided will be stored in the repository	
Message Name	AccountSummaryReport
Message Abbreviated Name (for FIXML)	AcctSumRpt
Category	AccountReporting
Message Synopsis	<p>The Account-Summary-Report is provided by the <del>CCP-clearinghouse</del> to its <del>Cclearing Mmembers</del> on a daily basis. It contains margin, settlement, collateral and pay/collect data for each <del>Cclearing Mmember</del> level account type. Clearing <del>Mmember</del> <del>Aaccount</del> types will be described through use of the Parties component <del>group</del> and <del>Parties PtysSubGrp</del> sub-component <del>group</del>.</p> <p><del>Additionally, In certain usages, Cclearing Mmembers can send the Account-Summary Report message to the CCP-clearinghouse as needed. For example, Cclearing Mmembers can send this message to the CCPclearinghouse to identify the value of collateral for each customer to satisfy their (to satisfy CFTC Legally Segregated Operationally Commingled (LSOC) regulatory reporting obligations), to identify the value of collateral for each customer.</del></p>
Message Elaboration	<p>The Parties component and <del>Parties-PtysSubGrp</del> sub-component are used to describe the <del>Cclearing Mmember</del> number and account type for that report. Net <del>Ssettlement</del> amount or amounts are provided using the <del>existing Settlement Obligation Instruction SettlementAmountGrp</del> component. Margin requirement amounts are provided using the Margin-Amount-Data component.</p> <p>The current collateral values for each valid collateral type is provided using the <del>proposed-Collateral-AmountGrp Group</del> component. Likewise <del>Ppay/Ccollect</del> information is provided using the <del>proposed-Pay-CollectGrp Group</del> component. <del>Both of these components are repeating blocks.</del> Margin and pay/collect amounts can optionally be tied to markets and market segments for clearing houses that support multiple markets</p>

	and market segments.
To be finalized by FPL Technical Office	
(MsgType(tag 35) Enumeration	<a href="#">CQ</a>
Repository Component ID	<a href="#">127</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	<i>Standard Header</i>	Y				MsgType = CQ
1699	AccountSummaryReportID	Y				
715	ClearingBusinessDate	Y				
900	TotalNetValue	N				
899	MarginExcess	N				
716	SettlSessID	N		ADD		
717	SettlSessSubID	N		ADD		
60	TransactTime	N		ADD		
	Component Block <SettlementAmountGrp>	N				
	Component Block <MarginAmount>	N				
	Component Block <Parties>	Y				Used to identify the parties for the account (clearing organization, clearing firm, account type, etc.)
	Component Block <CollateralAmountGrp>	N				
	Component Block <PayCollectGrp>	N				
	<i>Standard Trailer</i>	Y				



## 6 FIX Component Blocks

### 6.1 Component CollateralAmountGrp

To be completed at the time of the proposal – all information provided will be included in the repository	
Component Name	CollateralAmountGrp
Component Abbreviated Name (for FIXML)	CollAmt
Component Type	<input checked="" type="checkbox"/> _X_ Block Repeating <input type="checkbox"/> Block
Category	AccountReporting
Component Synopsis	The Collateral Amount Group component block is a repeating group that provides the current value of the collateral type on deposit. The currency of the collateral value may be optionally included.
Component Elaboration	
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2191</a>

Component FIXML Abbreviation: <CollAmt>						
Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
1703	NoCollateralAmounts	***				
→	1704	CurrentCollateralAmount	N			Required if NoCollateralAmounts > 0.
→	1705	CollateralCurrency	N	CHANGE		Defaults to the settlement currency if not specified.
→	1706	CollateralType	N	CHANGE		Defaults to the settlement currency if not specified.
→	<a href="#">1902</a> <a href="#">TBD</a>	HaircutIndicator	N	NEW		
</CollAmt>						

## Appendix A - Data Dictionary

Tag	FieldName	Action	Datatype	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
803	PartySubIDType	CHANGE	int	Type of PartySubID (523) value  4000+ = Reserved and available for bi-laterally agreed upon user defined values  <del>44TBD</del> = Guarantee fund (Elaboration: Identifies a guarantee fund related to an account. Used when one account has multiple funds of collateral, each guaranteeing different positions. Can be used for PartyRole(452) = Customer Account(24).)	@Typ	
<del>1902</del> <del>TBD</del>	HaircutIndicator	NEW	Boolean	Indicates, if "Y", that a stated valuation includes a haircut, e.g. that the stated value reflects the subtraction of the haircut. Note that a value of "N" does not imply a haircut is not applicable, only that the haircut (if any) is not reflected in the stated valuation.	<del>TBD</del> HrcInd	Add to CollateralAmountGrp

## Appendix B - Glossary Entries

Term	Definition	Field where used

## Appendix C - Abbreviations

Term	Proposed Abbreviation	Proposed Messages, Components, Fields where used
Haircut	Hrct	HaircutIndicator

## Appendix D - Usage Examples

### LSOC Submission

This is an example of an LSOC submission for a customer account. Account ABC12345 trades both CDS and IRS. In the guarantee fund for CDS, the account has deposited securities as collateral with the FCM denominated in USD and EUR. The FCM has, in turn, deposited them with the DCO. The collateral for the CDS guarantee fund is valued as:

- USD: \$5 MM before haircut, \$5 MM after haircut
- EUR: 2 MM before haircut, 1,800,000 after haircut

Line	Tag Example	Description
1	<AcctSumRpt	Account Summary Report
2	RptID="123456789"	Report ID
3	BizDt="2012-02-06"	Clearing Business Date
4	SetSesID="EOD"	Settlement cycle (End Of Day)
5	TxnTm="2012-02-06T18:23:49">	Submission Time
6	<Pty ID="CME" R="21"/>	Clearing organization
7	<Pty ID="111" R="4"/>	Clearing member firm ID
8	<Pty ID="XNYM" R="22"/>	Exchange
9	<Pty ID="111" R="1"/>	Trading firm ID
10	<Pty ID="ABC12345" R="24">	Customer account
11	<Sub ID="1" Typ="26"/>	Position account type a.k.a. customer origin
12	<Sub ID="ACCTNAME" Typ="5"/>	Account name
13	<Sub ID="H" Typ="41"/>	Customer account type: House
14	<Sub ID="CDS" Typ="44TBD"/>	Guarantee fund: CDS
15	</Pty>	
16	<CollAmt Amt="5000000" Ccy="USD" HrctInd="N">	\$5 MM USD before haircut

17	<CollAmt Amt="5000000" Ccy="USD" HrctInd="Y">	\$5 MM USD after haircut
18	<CollAmt Amt="2000000" Ccy="EUR" HrctInd="N">	2 MM EUR before haircut
19	<CollAmt Amt="1800000" Ccy="EUR" HrctInd="Y">	1,800,000 EUR after haircut
20	</AcctSumRpt>	