

20110218 Confirmation of Trades

International supervisory authorities and major market participants met at the Federal Reserve Bank of New York in late January to discuss ongoing efforts and future priorities for improving the infrastructure and reducing risk in OTC derivatives markets.

The meetings between the OTC Derivatives Supervisors Group (ODSG) and major market participants have served as a venue for open dialogue and collective action to effect practical improvements in these global markets and have focused upon the post-trade space.

Regulatory interest in post-trade processing has grown significantly over the past two years and one of the current focus areas is the reporting and confirmation of trades, possibly to trade repositories, as soon as possible.

ACI's Model Code states that one of the "essential" risk controls available to institutions dealing in the financial markets is the independent confirmation of trades between the back offices of the respective counterparties. It further notes while confirmations continue to be an essential risk control in bilaterally-negotiated and settled transactions, the introduction of multi-lateral trading and clearing in some OTC instruments has led to confirmations being replaced by the automated matching of transactions.

The Model Code further states that brokers should confirm all transactions to both counterparties immediately by an efficient and secure means of communication, and whilst it notes that in some markets it is not uncommon for one party to send out confirmations, this practice is not recommended due to the operational and legal risks that may arise.

The rise of automated trading systems and central clearing counterparties (CCPs) has meant that in recent years, trades executed or reported to these venues have been automatically matched. The Model Code states that provided the trading system or CCP is independent to the counterparties, that matching takes place without undue delay over a system that is efficient, secure and robust, and that the counterparties have efficient procedures in place to deal with unmatched transactions, then confirmations need not be exchanged.

Issues pertaining to the back office, payments and confirmations are dealt with in Chapter III of the Model Code.