Collibra

Solution brief

Automated data quality checks for commodity trading position limit compliance

Challenge

Financial institutions face significant challenges in ensuring accurate and timely compliance with Commodity Futures Trading Commission (CFTC) position limits. Manual data quality processes are prone to errors, inefficient and struggle to keep pace with the volume and velocity of trading data. Inaccurate or incomplete data leads to regulatory risk, potential fines and reputational damage. Existing systems and processes for monitoring and validating data quality often lack the necessary automation and scale to provide a reliable, real-time view of positions across all relevant entities and trading platforms.

Types of limits:

- **Speculative position limits:** These limits restrict the number of contracts a single trader or a group of related traders can hold in a given commodity future. The goal is to prevent excessive speculation that could artificially inflate or deflate prices
- **Hedging position limits:** These are generally higher than speculative limits and apply to traders who can demonstrate that their positions are for hedging purposes (protecting against price risk in their underlying business activities). Demonstrating bona fide hedging is crucial to avoid exceeding the speculative limits
- **Other limits:** There may be other limits or restrictions depending on the specific commodity or market, such as concentration limits (limiting positions in a specific delivery month) or aggregation rules (determining how related entities are treated)

Factors affecting limits

- **Commodity:** Limits vary significantly depending on the commodity (e.g., corn, wheat, crude oil, gold). More volatile or less liquid commodities might have lower limits
- **Contract:** Limits may differ even within the same commodity, depending on the contract specifications (e.g., delivery month, contract size)
- **Trader classification:** The CFTC classifies traders based on their trading activities and relationships. This classification impacts the limits applied
- **Aggregation:** The CFTC considers the positions of related entities (e.g., a parent company and its subsidiaries) as a single entity when determining compliance with position limits

Compliance and enforcement

- **Reporting requirements:** Traders subject to position limits must regularly report their positions to the CFTC or designated reporting entities. Failure to report accurately and timely can lead to penalties
- **Exemptions:** There are some exemptions to position limits, typically for bona fide hedging, but proving eligibility for an exemption requires meticulous record-keeping and documentation
- **Penalties for non-compliance:** Violations can result in substantial fines, trading restrictions and even criminal charges in severe cases. The penalties are designed to deter market manipulation and maintain fair and orderly markets.

Solution

Collibra Data Quality and Observability provides a robust and automated solution for getting the visibility you need to fix data quality issues before they impact your business. By leveraging its advanced monitoring, validation and notification capabilities, financial institutions can ensure compliance with CFTC position limits.

- **Automated data quality checks:** Collibra's AI-powered, self-configuring quality rules and point and click observability automate and scale data monitoring and validation. This includes sophisticated anomaly detection, duplicate detection and validation against expected data ranges in position data
- **Centralized visibility:** Collibra integrates with various data sources (trading systems, order management systems, etc.) to provide a single, unified view of all positions across the enterprise, eliminating data silos and ensuring a complete picture of limits, breaches and exposures
- **Proactive alerting and notification:** Collibra generates alerts for potential violations and provides comprehensive reports to compliance officers, risk managers and other stakeholders, enabling timely intervention and corrective action. This improves response times and minimizes the potential of regulatory issues
- **Simplified compliance audits:** Collibra provides a complete audit trail of all position data, simplifying compliance audits and demonstrating adherence to regulations. The automated nature of the system reduces manual effort and enhances the accuracy of auditing processes

Key benefits:

- **Enhanced data quality:** Improved data accuracy and consistency reduce errors and improve decision-making
- **Increased transparency and accountability:** Comprehensive reporting and audit trails enhance transparency and accountability within the organization
- **Strengthened risk management:** A real-time view of positions enables proactive risk management and mitigation
- **Minimized regulatory risk:** Proactive monitoring and automated alerts significantly reduce the risk of CFTC violations and associated penalties
- **Improved operational efficiency:** Automation streamlines compliance processes, freeing up staff and resources

Conclusion:

Collibra Data Quality and Observability offers a powerful and comprehensive solution for ensuring compliance with CFTC position limits. By automating monitoring, validation, and notification Collibra helps financial institutions address position limit issues before they become a regulatory issue. With the proven scalability to manage large trade volumes and a complex web of interconnected data sources, you can better mitigate regulatory risk, improve operational efficiency, and strengthen your risk management capabilities.

Core capabilities

- Schema evolution
- Profiling
- Correlation analysis
- Segmentation
- Outlier detection
- Duplicate detection
- Pattern mining