Financial Derivatives and Credit Derivatives in particular play a central role in the global financial crisis. Investors and regulators face a difficult task in assessing the risk and leverage associated with these derivatives for three reasons:

1. The underlying structures are sufficiently complex that it is easy to ignore important features of risk.
2. The outstanding quantity of long and short positions is not known and the ownership of these is also not known.
3. The counter-parties to both short and long positions are also not known and consequently there are complex risks associated with the financial health of counter-parties.

A modest step toward better risk management and potential regulation of these products is timely recording of all transactions including both counterparties and the underlying reference security. This would cover all OTC transactions on standard products. It would exclude transactions on organized exchanges. This would probably be enforced either by regulators or by statute. The recording could be part of the legal process as it is in slow moving assets like real estate.

An important issue is the list of standard products. ISDA has standardized quote sheets for most OTC transactions and it should be easy to record such sheets for new products as they are developed. Perhaps for unique OTC transactions, the recording agency could record both the contract and the counterparties. Or perhaps there could be a waiver. These details would be important as they could restrict innovation or allow enormous loopholes such as an Above the Counter (ATC) market.

The benefit of such a record would be increased transparency in the OTC markets and much better risk management as both investors and regulators could better see the overcommitted counterparties. It would presumably push more products toward exchanges and better organized clearing. It would reduce the burden of mark-to-market accounting as firms would be transparent to these derivative positions. Clearing and margining would be dramatically easier.

The main opposition to this proposal is presumably the financial entities who do not want to reveal their positions. Their line of business and their P&L would be much easier to figure out than today. Possibly this information could be in some way restricted although I am not sure this makes sense. In addition, this would be an extraordinary amount of information and there are costs with its collection and distribution.