

Bank for International Settlements/OICV-IOSCO
Committee on Payments and Market Infrastructures

APG Asset Management

Amsterdam, September 20, 2015	Visiting Address Gustav Mahlerplein, 3 1082 MC, Amsterdam
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Our reference -	Your reference -
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Subject: Consultative report on the harmonization of the UTI

Dear Sir/Madam:

APG Asset Management N.V. (**APG AM**) is a Netherlands based asset manager that works exclusively for Dutch pension funds. The work of APG AM affects more than 20,000 employers who in turn provide for the income of more than 4.5 million citizens in the Netherlands. As such, APG AM manages over 30% of all collective pensions in the Netherlands. APG AM has assets under management of approximately €440 billion as of March 2015. APG AM is an indirect subsidiary of Stichting Pensioenfonds ABP, the Dutch pension fund for the government and education sector and the second largest pension fund globally.

We very much welcome the opportunity to provide input on the topic of a harmonised UTI. As an asset manager dedicated to pension funds, the scale of our operations and the fact that our investment universe is truly global, you will appreciate the fact that we make regular use of a range of OTC derivatives (e.g. Interest Rate Swaps, FX Forwards, etc.) for both obvious and various reasons (e.g. managing interest rate risk and currency risk). As an experienced “buy-side” derivatives counterparty we hope to make a valuable contribution in respect of this consultation. Where possible we have tried to answer your queries to the best of our ability. However, occasionally the level of detail that was required, would prevent us from providing you with a response. Before moving to our responses, we would like to accentuate two areas we perceive as pivotal in solving the challenges that the industry is currently facing with the use of UTI's.

Scope of definition

Above all, we believe it is very important to have a clear understanding of what is a reportable derivative or not. This can only be determined by having a strict and globally harmonized definition of what constitutes a derivative. In our opinion, efforts to introduce harmonized standards for UTI's are fruitless as long as there is no unanimous interpretation of definitions. The definition of FX Spot transactions would be an obvious example here. In the EU there is no clear boundary or threshold to indicate where a transaction ceases to be a FX Spot transaction and enters the realm of FX Forwards. So far it is up to counterparties' discretion to determine whether reporting is required or not, giving rise to additional discussions on interpretation. As a result either too many transactions are needlessly being reported as derivative transactions or too many actual derivative transactions remain unreported. Even if unambiguous guidance were to emerge in the EU shortly after all, it would still require alignment with interpretation in other jurisdictions (e.g. “Determination of Foreign Exchange Swaps and Foreign

Exchange Forwards Under the Commodity Exchange Act¹). In this regard we also would like to make reference to the letter the European Commission sent to ESMA, dated 23rd July 2014², suggesting a T+2 settlement period for European and other major currency pairs and a “standard delivery period” for all other currency pairs. Again, we would consider this to be a prerequisite for any promising initiative such as this to establish a harmonized approach towards UTI’s.

UTI generation

In the past few years APG AM has endeavored to express concern about the lack of clear and mandatory UTI standards in relation to EU securities markets, with a particular focus on the responsibility for UTI generation. At present there are no clear requirements that determine which party carries the responsibility for UTI generation. Like many other buy-side firms, lacking clear standards, APG AM has tried to come to clear arrangements and have the sell-side determine the UTI. However, in practice it does not work out like that. Our experience is that all too often counterparties are either reluctant to produce a UTI, to share it in case they have produced a UTI, or share it on time in order for APG AM to make its trade repository reporting deadline. Consultation among a number of our peers about a year ago indicated similar experiences and led to a joint letter to ESMA, urging ESMA to introduce firm standards for UTI generation, arguing that lack of such standards contravenes the goal of achieving greater transparency and reduced complexity for derivatives markets. A letter of a similar nature was sent early this year to the European Commission by Pensions Europe, expressing concern on behalf of its members.

Please find our response to some of your questions below:

Question 2: Are there further harmonisations (that could potentially be applied) to the rules that define which transactions are reportable that would reduce or eliminate the challenges around generating UTIs? In answering this question, please also describe the challenge(s) and identify the jurisdiction(s).

We refer to our general remark on **Scope of definition** above.

Question 3: Do respondents agree with the proposed approach to UTI allocation for package transactions? Under what circumstances should the entire package have a single UTI?

APG AM prefers a separate UTI for each component of a package trade. This is simpler and does not lead to further complexity in case of lifecycle events.

Question 5: Which, if any, of the options for identifying and linking components of packages do you favour and why? In particular, please consider the extent to which the options achieve traceability?

A simple link would be feasible, possibly in addition to the UTI if it proves to be too complex to incorporate such a link within the UTI itself. However re-reporting full trades on all kinds of events would lead to increasing complexity in the administration.

Question 17-21: Would it be beneficial if the guidance did not provide for the harmonisation of rules for the responsibility for UTI generation with respect to trades that are not cross-border? Would there be disadvantages to this approach? Does the analysis of this idea depend on which option is used for cross-border trades?

¹ Federal Register/Vol. 77, No. 156/Monday, August 13, 2012/Rules and Regulations, 48257

² Reference: Markt/G3/GW/bh ARES(2014)

As stipulated above in our general remark on **UTI Generation**, APG AM has a strong preference for harmonization of rules for the responsibility for reporting (including UTI generation), whether cross-border or not. APG AM prefers single-sided generation of UTI's by the sell-side. In addition, we would recommend to introduce guidance and procedures that are to be followed in case a sell-side entity would not provide the UTI (in time) for meeting the reporting deadline.

Our opinion is based upon our principles of simplicity and standardization. In that sense APG AM also prefers single-sided reporting by the sell-side party. This would considerably reduce operational complexity as far as completeness, correctness and timeliness of reports (which may require liaising with multiple counterparties on a regular basis) is concerned. Single-sided UTI-generation serves a limited purpose in case of double-sided reporting when timeliness issues arise on the sell-side.

Question 36: Which of these possible UTI components, if any, are important and why? Is it necessary for the UTI to have any of these components?

APG AM is agnostic regarding this subject. However, anonymity is of utmost importance to perform our hedging duties on behalf of our pension fund clients. Hence, any authorized recognition of an entity's identity should be limited to trade repositories and the regulators.

Question 39/45: Should the UTI be solely a dummy code, ie a value that contains no embedded intelligence? Why or why not? Assuming that other data elements regarding a transaction (e.g. the identification of the counterparties, the date and time of execution etc) will be captured by the report to the TR, is it necessary to reflect such elements in the UTI?

Given the desire for anonymity for an institutional investor, a dummy code would be preferable. A dummy code would also support uniformity and simplicity across jurisdictions.

Question 48: Should the UTI be case-sensitive (allowing for upper- and lower-case characters to be regarded as distinct)? Should the UTI avoid using certain alphanumeric characters that resemble others? For example, do you think it advisable for the UTI system to avoid using the digits "0" and "1" so as to avoid confusion with the letters "O" and "I" (or vice versa)?

Generally APG AM is indifferent regarding this topic, as long as there is clarity and standardization.

Question 50: Should separators between different component parts of the UTI be used? Why or why not? If so, which separators and why do you recommend them?

Without separators, regulators may require the use of XML, which requires far more bandwidth than a report that uses separators. APG AM is agnostic regarding what separator is used.