

BBA Draft Response to the CPMI/IOSCO Second Consultative Report on Harmonisation of the Unique Product Identifier (UPI)

The British Bankers' Association (BBA) welcomes the opportunity to engage with the Committee on Payments and Markets Infrastructure (CPMI) and the Board of the International Organisation of Securities Commissions (IOSCO) on this second consultative report on harmonisation of the Unique Product Identifier (UPI). The BBA continues to support the approach taken by CPMI and IOSCO in consulting with relevant stakeholders on the aggregation of data and the harmonisation of identifiers.

The BBA remains a strong advocate for the harmonisation of global data. The BBA is the leading association for the United Kingdom banking and financial services sector, representing over 200 banks, which are headquartered in 50 countries and have operations in 180 countries worldwide. Our members manage more than £10 trillion in banking assets, employ nearly half a million individuals, contribute some £100 billion to the economy each year and lend some £200 billion to businesses.

Executive Summary

Introduction

The BBA reiterates its support for the efforts taken by CPMI and IOSCO to implement a mechanism to produce and share global aggregated data, and the development of a UPI consisting of a product classification and an associated code. We have previously discussed with CPMI and IOSCO our concerns with the proposed product classification system, highlighting the need for greater clarity on how it would be harmonised with the different regulatory requirements of multiple jurisdictions, as well as raising concerns over both future-proofing the code and the separation of identifying products and classifying products.

Aligning standards

The BBA broadly welcomes the proposals within the latest consultation paper. We believe that the data elements identified are satisfactory, and strongly recommend that, wherever possible, the UPI code is aligned with the existing ISIN standards. This is to ensure that identifiers remain joined-up, meaning firms can work to consistent standards and reference non-contradictory definitions.

To that end, we have also recommended that CPMI and IOSCO work where possible with the ISO Study Group 2 and with the Association of National Numbering Agencies (ANNA) to ensure that definitions and standards can be appropriately harmonised. We have also recommended a maximum limit of 12 characters for the UPI code system and the usage of both Roman letters and Indo-Arabic numerals in order to achieve consistency with the existing ISIN.

Dummy and intelligent UPI codes

The majority of BBA members support the use of a dummy UPI code and oppose the use of an intelligent UPI code. This is due to the core principles of CPMI and IOSCO stating that a UPI would need to be "persistent" and, as we explain in detail in our response to the consultation questions, we broadly believe this would be consistent with a dummy code and violated with an intelligent code. Some BBA members did feel that a combination of a dummy UPI code and an intelligent UPI code could prove to be useful, if such a combination were able to be effectively achieved.

Source identification

We have identified one particular obstacle to including the source of the identifier for the underlier as part of the reference data element for the underlier, namely that many of these identifiers are proprietary in nature, and therefore not eligible to be released to the public or used for public purposes. We have therefore recommended that CPMI and IOSCO examine the existing framework for other identifiers to explore how licensing could be used in this instance.

Conclusion

We thank CPMI and IOSCO for the opportunity to engage on development and harmonisation of the UPI. We reiterate in particular our recommendation that, where possible, the UPI align with existing ISIN standards and that other identifiers also be examined for this purpose. The majority of our members are clear in their support for the usage of a dummy UPI code and their opposition to an intelligent UPI code, though some believe the principle of a coexisting code is worth exploration.

We refer CPMI and IOSCO to our response to the February 2016 consultation paper “Consultative Report on Harmonisation of the Unique Product Identifier” and look forward to engaging further on these and other issues.

Responses to Consultation Questions

Question 1: Do you believe that the data elements within each asset class described above are appropriate? Why or why not? If there are additional subcategories that you believe should be included for one or more asset classes, please describe them and discuss why you believe they should be included.

The BBA believes that the data elements within each asset class described in the consultation are appropriate, and that there are no additional subcategories that should be included for any asset class.

However, the BBA notes that there are other regulatory and industry requirements that both could and would require additional attributes. Therefore, the BBA supports the CPMI comment that the “UPI could be leveraged to define other more granular derivatives identifiers for other purposes...”. The ISIN project is proposing such a hierarchical approach and the BBA notes that one-size does not fit all in the case of product identification.

Question 2: Do you believe generally that the value “Other” is required in certain data elements? If so, which ones and why?

The BBA does believe that the value “Other” is required in certain data elements in the ISDA taxonomy, and would encourage CPMI and IOSCO to refer to ISDA’s response to the consultation paper for further details. Additionally, we note that the value “Other” allows a transparency for the identification of products which would require remediation.

Question 3: For an OTC derivative product based on a custom basket of securities or assets, please provide your view of the optimal means of representing that OTC derivative product. Do you believe that it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference data? If not, how do you believe that the elements of the custom basket and their risk weights should be reported to a TR?

We do not believe that, at present, it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference data. The most important factor when considering a product based on a custom basket is that the constituent parts and their respective weightings are properly understood. We do not believe there is currently an efficient and effective way to appropriately collect this data in such a way as to then report it accurately to a TR. Such a form of collection would need to be pre-determined on how firms currently report constituents, underliers and weights.

Question 4: How should underlying assets and reference entities be represented in the UPI data library? Would LEIs be identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

The BBA notes that the underlying assets and reference entities are not going to be OTC derivative themselves in all scenarios and that forcing a process on a group of assets or entities that are out of scope will not be successful. We would, therefore, encourage CPMI and IOSCO to examine a range of identifiers, including ISINs, Sedol, RICs, Bloomberg FIGI and other industry accepted identifiers.

The BBA believes it is feasible to use an existing identifier, ideally one which is widely accepted for the relevant class underliers. This could potentially be an ISIN, or another identifier as described above. However, in some cases, LEI may not be granular enough to be suitable for corporate reference entities. For example, if you were seeking the terms of

the underlier for 15 years' worth of bonds, the LEI would not provide the granularity necessary to identify this.

We caution CPMI and IOSCO against a "one-size fits all" approach, appreciating that there will be differences between product types and asset classes. While an ISIN would most likely be suitable in the majority of cases, other asset-class specific IDs could be considered depending on the specific underlying asset, asset source or reference entity being reported.

We note that both the ISO Study Group 2 and ANNA are actively working on the product definitions for the OTC derivatives. We therefore recommend that CPMI and IOSCO should work together with the ISO Study Group 2 and ANNA to ensure that definitions and identifiers can be lined up.

Question 5: Do you envisage any obstacles to including the source of the identifier for the underlier as part of the reference data element for the underlier? Please explain and justify.

The consultation paper made reference to "reference data libraries", stating that these should be made available for public use. We note that a number of identifiers are proprietary in nature, and are therefore not eligible for publication, in a reference data library or otherwise. We believe this could be an obstacle, where seeking to include these sources in publishable reference data, and recommend CPMI and IOSCO consider how such proprietary identifiers could be made available for public consumption. We believe the UPI and ISIN need to be available in public databased for this information to be useful for new regulatory requirements.

We encourage CPMI and IOSCO to examine the existing framework for CUSIPs and RED IDs, these being proprietary labelling systems, as instances where licences must be acquired before they can be used. Having IP constraints associated with identifiers would not meet the purpose of the UPI and would therefore only serve as an obstacle. Industry will require an alternative for a generic, public available underlier identifier, and our members are willing to assist with this if CPMI and IOSCO believe this is required.

Question 6: Could there be issues related to including proprietary benchmarks and indices in publicly available reference data or publicly disseminated UPIs? Please elaborate on any issues, such as licensing, that may exist.

We refer CPMI and IOSCO to our response to question 5; we do feel that there are issues relating to proprietary benchmarks and indices in publicly available reference data and publicly disseminated UPIs, including licensing.

Other issues that we believe may arise include fingerprinting. For example, where a proprietary benchmark is only published by a single bank for a single client, it could be possible to engineer back to who the bank(s)/client(s) included in that trade are, when that is not intended to be part of the UPI in the first place, with it intended to be anonymous.

Question 7: What are the arguments for and against the use of a dummy UPI code or an intelligent UPI code, or having both types of code coexisting?

The majority of BBA members support the usage of a dummy UPI code. CPMI and IOSCO core principles state that the UPI needs to be "persistent". It is our opinion that this core principle would be violated if the code is intelligent, as at some point in the transaction lifecycle, the "intelligence" will become stale. Therefore in order to ensure that the persistence principle is supported, we support the use of a dummy UPI code.

Preference for a dummy code is likely to come from its ability to be particularly granular. For example, if we consider an interest rate derivative that includes within it zero coupon swaps, that will include within it all of the underlying codes that sit within the existing taxonomy. If we then look at this trade from the perspective of portfolio compression, a code with that high level of granularity will not be useful as it is too abstract. Another product identifier would then have to be created for a firm to include this on its trades. We can see that a firm could end up with multiple codes on a single trade – a dummy code would create a single code to cover all techniques, going to a very granular level, similar to an ISIN.

Several BBA members expressed support for the principle of a coexisting dummy UPI code and intelligent UPI code, provided such a combination could be brought about effectively.

Question 8: Do you agree that a well-articulated UPI reference data library could support interoperability between dummy UPI codes and intelligent UPI codes? Why or why not? What steps could be taken with the UPI reference data to facilitate supporting both types of UPI code?

The BBA refers CPMI and IOSCO to our response to question 7; the majority of our members do not support the usage of intelligent UPI codes as these will violate the CPMI and IOSCO core principle of code persistency.

Question 9: What are the minimum and maximum lengths (in terms of number of characters) that you believe the industry could accommodate for a UPI code system? How does this vary between dummy and intelligent codes? What do you believe is the optimal number of characters and why?

The BBA recommends that CPMI and IOSCO introduce a maximum length of 12 characters for the UPI code system, in order to be consistent with the ISIN. We believe it is important for CPMI and IOSCO to align any new UPI standards with the existing ISIN standards as much as possible, as this will avoid causing a situation where industry has to adhere to competing or even contradictory standards.

Question 10: For intelligent codes, how should the information be encoded? Are there existing models for this? How much adaptation would existing models require in order to meet the needs described in this consultation?

The BBA refers CPMI and IOSCO to our response to question 7; the majority of our members do not support the usage of intelligent UPI codes as these will violate the CPMI and IOSCO core principle of code persistency.

Question 11: Do you believe that UPI codes should have an inherent means of validation? For example, should UPI codes include a digit check? Why or why not? Does this vary between dummy and intelligent codes and/or depend on the encoding method used in an intelligent code?

Digit checks and check codes are useful provided they have been correctly issued. In terms of variance, we believe that a digit check is particularly useful for a dummy code, as it enables you to validate the person who has generated the code correctly. There is also a failsafe in generating, as a counterparty made a mistake in typing, a validation check at the consumption of a trade with an LEI or ISIN in it would ensure this trade was rejected. As such, we recommend that dummy UPI codes include an inherent means of validation along these lines.

While we do not support the use of intelligent codes for the reasons detailed in our response to question 7, the BBA does not believe that a digit check would be particularly effective for

an intelligent code. An intelligent UPI code is generated from the attributes of a trade rather than the individual producing it, meaning that an effective check capable of validating the trade “string” would be impractical. While it would not be impossible for a digit check to function within an intelligent UPI code, we believe that it would simply not be worth requiring it from an intelligent UPI code, in contrast to a dummy UPI code.

Question 12: Another means of having a simple, partial validation for a UPI code would be for all UPI codes to be of uniform length: thus, any code that was not of the original length could be recognised as prima facie invalid. Do you believe that all UPI codes should be of uniform length? Why or why not? Or are optimal UPI codes of one asset class likely to be longer or shorter than optimal UPI codes for other asset classes? If so, do you believe that extra dummy characters should be inserted into the shorter codes to make them of the uniform length? Why or why not?

The BBA refers CPMI and IOSCO to our response to question 9; we support a set, uniform length for the UPI codes as we believe this will enable alignment with the ISIN standards, and recommend that CPMI and IOSCO align the UPI standards with these as much as possible.

Question 13: For an intelligent UPI code, how should the underlying asset(s) or reference entity (entities) be represented within the UPI code? Would it be preferable for the part of the UPI code that represents the underlying asset(s) or reference entity (entities) to be dummy while the rest of the code is intelligent? Why or why not?

The BBA refers CPMI and IOSCO to our response to question 7; we do not support the usage of intelligent UPI codes as these will violate the CPMI and IOSCO core principle of code persistency.

Question 14: Should the UPI code system avoid using Roman letters? Why or why not? Are there particular jurisdictions whose computer systems cannot accommodate Roman letters?

The BBA sees no reason that the UPI code system should avoid using Roman letters and recommends alignment with the existing ISIN standards to ensure overarching consistency. As such, we recommend that the system is limited to Roman letters and Indo-Arabic numbers, as is already the case for ISIN and other existing identifiers.

We would draw CPMI and IOSCO’s attention to the concern that certain characters contained within UTIs have previously caused difficulty, such as ampersands and full stops, and that care should be taken within the UPI to maintain the focus on Roman letters and Indo-Arabic numerals only.

The BBA is not aware of a particular jurisdiction whose computer systems cannot accommodate either Roman letters or Indo-Arabic numerals.

Question 15: Would it be preferable for the UPI code system to use only Roman letters, only Indo-Arabic numerals, or a combination of the two? Why? If Roman letters are included in the UPI code system, should they avoid being case-sensitive? If the UPI code system uses both Roman letters and Indo-Arabic numerals, should the system not disallow particular characters that could be mistaken for each other (the lower-case letter “l” and the number “1”, the digit “0” and the upper-case letter “O” etc.)?

The BBA refers CPMI and IOSCO to our response to question 14; a combination of the two would be preferable in order to accommodate all jurisdiction systems, in a similar manner to

the ISIN. We recommend alignment with the existing ISIN standards to ensure overarching consistency. We do not have a view on whether the system should disallow the particular characters referred to, as any computer system should not have difficulty separating the characters from one another.