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Re – BBA Response to the CPMI/IOSCO 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 Organization of Securities Commissions (IOSCO) over the production of clear guidance on the definition, format and usage of the Unique Product Identifier (UPI). The BBA also supports the approach taken by CPMI/IOSCO in consulting with relevant stakeholders on the aggregation of data and the harmonisation of identifiers.

The BBA is a strong advocate for the harmonisation of global data. In responding to this consultation, the BBA has engaged with our members representing the wholesale space. 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**

We are strongly supportive of the efforts by CPMI/IOSCO to implement a mechanism to produce and share global aggregated data, and the development of a UPI consisting of a product classification system and an associated code. Although this consultation response will deal specifically with the product classification system, we believe that the associated code is critical to the success of a globally harmonised UPI and we would welcome the opportunity to engage with CPMI/IOSCO in 2016 as to how an associated code can best ensure the aggregation of data across trade repositories.

BBA members who are involved in trade reporting and the clearing of over-the-counter (OTC) derivatives via trade repositories are similarly supportive of the development of UPI. This support comes from a desire to ensure that firms can play their part in achieving transparency, protection against market abuse and the mitigation of systemic risk. Firms are particularly positive about the potential for meta-data to be aggregated via the UPI, which will increase the efficiency of how firms execute their reporting obligations.

Implementation of a global UPI

In order to create a successful UPI, we believe it is necessary for CPMI/IOSCO to provide greater clarity on how the development of a UPI classification system and associated code will be harmonised with the different regulatory requirements in certain jurisdictions. CPMI/IOSCO must engage closely with national competent authorities, regulators and other relevant organisations to ensure that rules and standards are harmonised to a suitable level among all of these participants.

Many firms currently have some difficulty identifying certain products from their clients due to the complexity of certain OTC derivative instrument types. To be successful, any UPI would

need to be synchronised with existing identifiers. We also note that there is no clear strategy at present for how CPMI/IOSCO will synchronise its UPI work with the existing requirements for reporting to Trade Repositories. For example, the European Securities and Markets Authority (ESMA) require the use of International Securities Identification Numbers (ISIN) for reporting under MiFIR. Greater clarity on how the granularity and requirements of the UPI will be aligned with ISINs through ESMA would be welcomed.

There is a risk that, if multiple product identifiers were allowed to continue across different jurisdictions, the complexity of classifying products and complying with reporting obligations would see an increase in inefficiency, which in turn would yield a poorer service for clients and lower satisfaction for consumers more generally.

Data elements and classification

We believe that the identification of products is separate from the classification of products. Currently products are classified via the ISDA taxonomy and the Classification of Financial Instruments (CFI) code. The identification of products would require a greater amount of granularity than currently exists in either the ISDA taxonomy or the CFI code. As addressed in our response to Question 8 in particular, the use of data elements and in particular meta-data will be crucial to the UPI achieving the level of granularity suitable to allow for the best possible classification of products.

Although we acknowledge that CPMI/IOSCO have provided an intention to use the data elements outlined in the consultative report to comprise the meta-data underlying the associated code, and that data elements will not be kept outside of the code, we would question whether or not all of the meta-data elements that would ensure a suitable level of granularity required by a product identifier – not solely a product classifier – have been included.

Future-proofing

As referenced in our answers below, there is concern that in order to be effective, the product classification for the UPI must be future-proofed to allow for market development and changes in derivative instruments and products. A strategy for future-proofing product classification, in the context of UPI granularity, would help to allay industry concerns that the UPI will not be used as effectively as it might otherwise be.

Responses to Consultative Report Questions

Key Concepts

Question 1: Are the above three OTC derivative instrument types sufficient to describe (in combination) all OTC derivatives? Which OTC derivatives would fall outside this approach?

The non-exhaustive list of the three basic OTC derivative instrument types on which OTC derivatives products could be based – and the corresponding set of proposed data elements for each – concurs with our view. We agree that for the purposes of this consultation, recognising that the list is non-exhaustive, the instrument types are sufficient to describe all OTC derivatives.

For the purposes of UPI harmonisation, there is no OTC derivative instrument type that would fall outside the approach identified by CPMI/IOSCO. We would, however, urge CPMI/IOSCO to make clear what strategy, if any, currently exists to future-proof this list, in order to enable the classification of derivatives products that have yet to be created under the UPI.

Question 2: Is it valid to assume that a combination of data elements of the instrument and data elements of the underlier is sufficient to define a product? If not, please explain.

We welcome CPMI/IOSCO's identification of the notional currency, the valuation amount and the timestamp as examples of data elements for instruments and underliers that would be used to define a product, and enable an authority to carry out its mandate. In order for a definition of a derivatives product to be sufficient for the purposes of creating a strong UPI, such a definition must include a greater number of data elements for the instrument and the underlier, and also include data elements relating to economic and legal terms crucial to the nature and definition of a derivatives product.

In considering what is sufficient to define a product, it is necessary to ensure such a definition enables CPMI/IOSCO's stated purpose for the product classification system of producing "clear guidance about the definition, format and usage of a UPI; a sufficient definition of a product is therefore crucial to ensuring a strong classification system, and that guidance to firms and their clients is as clear as possible.

We therefore disagree that a combination of data elements of an OTC derivative instrument type and data elements of the underlier alone can be considered sufficient indicators to define a derivatives product. While data elements on both instrument and underlier are crucial to defining a product, there are economic and other considerations within products that should also be taken into consideration in order to provide what we would consider to be a sufficient definition of a derivatives product.

As well as providing further detail on these types of data elements, CPMI/IOSCO should also acknowledge that any accurate definition of a derivatives product should also contain data elements for both economic terms and legal terms. For example, legal aspects of certain derivative products, such as optional early termination, break clauses and the right to extend are all integral to the nature and definition of a product, and should therefore be included.

Question 3: Is it valid to assume that the combination/set of data elements in the UPI classification system may differ across asset classes? If not, please explain and state how a uniform set of data elements could be comprehensively applied across asset classes.

We believe that it is valid to assume the combination of data elements in the UPI classification system will differ across asset classes. It is unlikely that a uniform set of data elements could be accurately applied across all asset classes. Multiple members of the BBA have confirmed that, based on their own experiences determining product classification for all OTC derivative instrument types, a uniform set of data elements would be impractical.

As previously stated in our answer to question 2, we recommend that the UPI classification system should take into account economic data elements of both the instrument and underlier when classifying products. Although the individual information will of course differ across asset classes, the importance of these economic data elements will be uniform across all asset classes.

Question 4: Do you agree with this approach to the UPI's treatment of package trades? If not, please explain and suggest alternatives.

The BBA is supportive for the most part of the proposed approach to the UPI's treatment of package trades. It would appear from the analysis presented both in this consultation and in previous consultations that a particular transaction linked to another transaction – as part of a package trade – is an attribute of a transaction, not of a product, and thus not relevant for the purposes of the UPI.

We would draw CPMI/IOSCO's attention to the view put forward by the Investment Association, the Institute of International Finance, the International Swaps and Derivatives Association and the Securities Industry and Financial Markets Associations in the recent *Consultative Report on the Harmonisation of the Unique Transaction Identifier (UTI)*, in which those associations called for data elements relating to package trades to be part of the UTI rather than part of the UPI. Their submission also made reference to the use of a Link ID for the separate components that would tie in the different legs of the trade.

The BBA endorses the position put forward by these associations on the position of package trades and how they should be reported. We believe this position allows for the dualities of packaged products to be properly reflected whilst fulfilling the regulatory needs required for the analysis of systemic risk. We would therefore recommend that CPMI/IOSCO should consider the implementation of the Link ID within UTI for package trades, and support the position put forward that data elements of a package trade not be related to the UPI.

Product classification principles and high-level business specifications

Question 5: Are the principles and high-level specifications listed and described above comprehensive in representing the characteristics of a classification system? If not, are there other principles and high-level specifications that should be considered? Please list and explain.

The principles and high-level specifications described under section 3 are broadly comprehensive in representing the characteristics of a classification system. The BBA, however, believe that there are considerations, principles and specifications that should be further considered by CPMI/IOSCO.

In particular, recognition of the burden of cost that will be borne by industry as a result of the UPI should be noted. The creation of a new UPI should not involve either a complex process for firms; any unnecessary complexity in the process will most likely increase the amount of time that obtaining a new UPI will take, and given the short time allowed for the reporting of certain products under different regulations, this would pose an obvious implementation challenge.

It is also important that no UPI generation deters or discourages the trade of particular products which might, for instance, be more complex to define and so harder to obtain a UPI for. We would hope that any UPI generation would be made as simple as reasonably possible in order to ensure that the process did not become cost-prohibitive for firms.

We also support the inclusion of formatting within the product classification principles. Making clear to the market what the UPI's basic format will be shall provide an articulation which will be useful for industry upon adoption. As part of this formatting, we believe that a UPI code of limited length string would assist in achieving the right level of granularity needed to identify a product.

In summary, both the potential cost burden related to UPI generation and the format that the UPI will take – including the granularity of the code – should be considered by CPMI/IOSCO as product classification principles.

Question 6: Are the principles and high-level specifications listed and described above accurate and precise in their definitions? If not, are there changes you would suggest? Please list and explain.

Other than where indicated elsewhere in our response, we believe that the principles and high-level specifications listed and described above are accurate and precise, and therefore sufficiently comprehensive in representing the characteristics of a product classification system.

Question 7: Could some of these principles and high-level specifications pose implementation challenges? Which ones and why?

Public dissemination on an international level should take data privacy and confidentiality concerns into account. We would advise that the need for public transparency must be balanced with the regulatory obligation in order to protect the liquidity of derivatives markets by safeguarding anonymity.

Question 8: Providers of product classification systems are encouraged to provide a detailed response to Section 3 to set out how their prospective UPI solutions meet, or could be revised to meet, each of these principles and high-level business specifications. If the UPI solution does not meet a particular principle or high-level business specification, please describe planned or potential amendments that could satisfy it.

In order to ensure full coverage of products and therefore more accurate classification, achieving the right level of granularity will be essential for success of the UPI. We would, therefore, recommend that CPMI/IOSCO conduct an assessment of granularity of the data elements in terms of the UPI ahead of its implementation ensure that activity across all jurisdictions is harmonised and classified accurately.

The existing ISDA taxonomy, first developed in 2011 and revised and updated in 2015, is currently used to classify derivatives trades. Due to its greater granularity than the alternatives – through its flexibility and being not limited to six positions as the Classification of Financial Instruments is – we would recommend that the updated taxonomy process is used as the base for a global UPI. The most positive aspects of ISDA taxonomy could therefore be used by CPMI/IOSCO to develop an even more granular identifier which is reactive to changing market circumstances and harmonised across all regulators and jurisdictions. We believe that to not use an available classification system which largely

meets the criteria set out by CPMI/IOSCO for a successful UPI would be a missed opportunity.

Another potential missed opportunity would be if CPMI/IOSCO did not use the opportunity to develop a UPI that not only operates at the level currently proposed – which we support – but that can also be used for other industry-focused purposes. For example, the creation of an identifier for the purposes of data aggregation which is at the same time an identifier used in other contexts would lead to an improvement in data quality, and therefore more effective classification and reporting.

We believe that CPMI/IOSCO should also consider how the proposed UPI could best make use of the underlying meta-data contained within the classification. Although this consultation deals exclusively with product classification and not with the associated code, the details currently put forward by CPMI/IOSCO on data elements make it clear that meta-data elements already existent within the ISDA taxonomy and the CFI code will be intended to ultimately make up the associated code.

However, clarification on whether the data elements that have been included within this consultation are ultimately intended to be the sole set of data elements would help to establish whether the granularity of the UPI is at a level appropriate for a product identifier. Using a larger number of meta-data elements to underlie the code would make building a code that would accommodate and satisfy the needs of firms who must comply with regulatory reporting more convenient. We would also refer CPMI/IOSCO to the Symbology work undertaken by ISDA and referred to in their response, which deals with the differing levels of granularity in other areas where the usage of product identifiers can be beneficial.

Question 9: As discussed in Section 3.5, should a classification system allow one or more of its data elements to take the value “Other” in order to incorporate new and/or highly bespoke products that do not yet have a more precise definition within the classification system? Why or why not? If not, how would the bespoke/non-standard products be treated within the classification system? What should be the criteria and processes for moving one or more data elements from “Other” to a more specific bucket? Should the volume of transactions that can be reported using these “Other” values be capped in order to maintain the precision of the classification system? If so, what would an appropriate cap be?

We support the principle of the classification system allowing one or more of its data elements to take the value “Other”. As it may not be possible for all derivative instrument types to be properly classified via the UPI, it would make sense to provide for a value “Other” to ensure the inclusion of derivative products that do not have enough standardised information to be uniquely identified and classified by the UPI.

The inclusion of a value “Other” would also prevent firms from being subject to onerous costs associated with building individual classifications for products where the number of trades made using such a product would be so limited as to render the cost of producing a separate classification disproportionate. Likewise, the value “Other” would enable the inclusion of instruments or products which are not exclusively associated any particular classification value. It is better for a product to be included within a value “Other” than to be placed in an incorrect bucket.

As part of implementing the value “Other”, we would join with other associations in recommending a governance process for the UPI which will ensure the UPI can evolve and change as the market evolves and changes, and allowing for alterations or updates to the UPI to take place when required in a convenient and quick manner. The principle of product identification is, as we have stated elsewhere in this response, something that is supported

by industry but this is liable to be harmed if necessary UPI revisions to take into account developments in the market take an inconvenient amount of time.

Proposed Classification Systems

Question 10: The results from the study presented in Annex 4 suggest that data elements that describe the instrument together with data elements that describe and identify the underlier may provide an optimal level of granularity for product classification. For informational purposes, beyond the use of a derivatives product classification system for the global aggregation of data reported to trade repositories, are you aware of product classifications for other purposes where this level of granularity is applicable? For example, what level of granularity is used for aggregating transactions to calculate a position, or to determine various risk exposures to a particular product? What level of granularity is used to aggregate transactions for the purposes of compression or netting operations?

In order for a product identifier to be successful, the level of granularity at classification level must be optimal. In order to achieve this it would be necessary for a classification system to be designed to increase efficiency at post-trade; currently there is a lack of a standard system in classification, which leads to an increase in inefficiency at post-trade.

The consideration of other functions for product identifiers, as we have outlined in our response to Question 8, would enable CPMI/IOSCO to link these identifiers together and leverage identifiers at different levels of granularity. This harmonisation between identifiers is crucial for a cost-effective infrastructure that will help address the problem of inefficiency at post-trade.

We recommend that CPMI/IOSCO consider proposals to link an instrument to a contract level identifier. This would enable industry to derive benefits, both commercial and otherwise, in terms of derivatives pricing and reconciliation. A framework of this kind would help with efficiency issues by being able to easily link with the UPI classification and helping to further harmonise different product identifiers and their various functions.

Question 11: Do the options presented above appear operationally feasible? If not, please explain why.

We believe that the options presented above do appear operationally feasible.

Question 12: What are the pros and cons that you see in each considered level of granularity (one with an identifier for the underlier, one without an identity for the underlier)?

We support a classification system with a level of granularity including an identifier for the underlier. Without underlier data, granularity would not be at a level suitable to effectively identify and classify derivatives products.

Question 13: A classification system that includes identifiers for underliers in all asset classes would require identifiers that are open-source and freely available to all users with open redistribution rights. Looking at the example of classification systems provided in this section and in Annex 5, do such identifiers exist for all asset classes? If not, please specify where you foresee implementation challenges in this regard and any suggested solutions.

We are not aware that open-source and freely available identifiers for underliers exist for all asset classes, although it is clear that they exist for the majority of classes, and are valuable to all users with open redistribution rights.

A potential challenge would be for when a market participant not already subscribed to the services of an existing reference data service provider wishes to use underlier values or associated codes. We support the suggested solution put forward by other associations in suggesting that in such cases, these non-subscribed participants should not be required to use the identifiers, and that general market participants should be allowed to have access to identifiers where the use of an identifier is standard within the relevant market.

Conclusion

The BBA is grateful for the work already undertaken by CPMI/IOSCO and the Harmonisation Group on developing not just a UPI but other identifiers and standards required for the reporting of OTC derivatives. As we have already stated, the BBA supports the principles and standards outlined by CPMI/IOSCO for the development of product classification. We would reiterate industry concerns over specificity on a strategy to ensure the rules are harmonised globally, the lack of consideration over future-proofing and concerns over how existing data elements will be used.

We look forward to the consultation on the associated code of the UPI due later this year, and will engage on those issues when that consultation is made available.

Sincerely,

British Bankers' Association.