Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch – consultative report

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General comments on the report

We are appreciative of work that is being undertaken by the Committee on Payments and Market Infrastructures and the Board of International Organisation of Securities Commissions on the Harmonsiation of critical OTC derivatives data elements.

While, the report is comprehensive and covers the data elements in detail, there are many data elements in respect of which we are unable to provide comments namely on the following count:
a) these data elements are not currently captured in CCIL-TR, as the underlying represented by these data elements are not implemented in our jurisdiction.
b) the data elements are not applicable in respect of the Instruments reported to CCIL-TR.

In our jurisdiction, margin requirements for non-cleared trades have not yet been implemented.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

Currently, posting collateral for non cleared bilateral trades is not required in our jurisdiction. For the cleared trades, the Collateral towards both Initial Margin and Variation Margin is taken by the CCP on a portfolio basis, but no portfolio code is allocated, as it represents collateral posted on its entire portfolio, irrespective of the counterparty.
The structure mentioned in the consultative report is more appropriate from the point of view of non cleared trades. Also, in the case of non cleared trades, it is indicated that collateralisation is performed on the basis of net positions only. However in some jurisdictions like ours (though margin requirements for non cleared derivatives is yet to be implemented), as per the draft guidelines issued by the Regulator, margins are required to be posted on a gross basis. Thus, in effect collateral is posted on a portfolio level but calculated on a gross basis. We suggest that such cases may also be considered while finalising the guidelines.

2.2 Collateral portfolio code

Q1: With reference to the alternatives proposed to capture information on portfolio code(s) (Section 2.2):

(a) In your view, how prevalent is the situation in which different transactions concluded under the same Master Agreement are associated with different CSAs (for initial margin posted, initial margin received and variation margin)?

No comments to offer as margining for Non Cleared Derivatives not yet implemented in our jurisdiction.

(b) The definition proposed in Alternative 1 is based on the assumption that, in the event of default, the entirety of the collateral provided under the given Master Agreement would be used to cover the loss of the non-defaulting counterparty, whether or not separate CSAs (for initial margin posted, initial margin received and variation margin) might be linked to that Master Agreement and whether or not all the transactions concluded under that Master Agreement would be associated with each of these CSAs. Is this assumption correct? If not, please clarify how the respective obligations would be resolved in the case of default. Please provide examples.

No comments.

(c) Are the differences in authorities' use of the two alternatives clearly illustrated in Table 2?

Yes, differences in authorities' use of the two alternatives clearly illustrated in Table 2.

(d) Which of the proposed harmonisation alternatives should be supported and why?

We prefer Alternative 2 as it is more exhaustive. It establishes clear linkages with the CSAs. It would capture different possibilities as Initial Margin posted and received could be in different currencies, or the initial margin and variation margin could be covered by separate CSAs. Also the timing of posting initial margin and variation margin could be different (example posting of variation margin on same day and initial margin on T+1 day).

Other comments on the data element "Collateral portfolio code":

None.

2.3 Portfolio containing non-reportable component

Comments on the data element "Portfolio containing non-reportable component":

Currently in our jurisdiction all OTC derivative transactions are required to be reported to Trade Reporting.

2.4–2.28 Data elements related to margins

Q2: The purpose of the data element "Initial margin settlement timing" (Section 2.10) is to allow authorities to better understand the difference between "Initial margin required to be posted by the reporting counterparty" (Section 2.17) and the "Initial margin posted by the reporting counterparty" (Section 2.5) as this difference may be due to the timing of when the required margin is determined and when the margin is posted. In the absence of information on the margin settlement timing, the difference in the margin required and margin posted amounts could be interpreted as over- or under-collateralisation. Information on the settlement timing of margin collected would serve the same purpose for global aggregation of initial margin collected (Sections 2.8 and 2.19).

(a) Are there challenges linked to the data element "Initial margin settlement timing" as defined above? Is there an alternative, more effective, way to represent this information, such as the date on which the initial margin posted (or collected) has been settled?

There should be a clear demarcation between cleared and non cleared products, as in the case of cleared trades, margins are collected before accepting the trades for clearing, whereas in the case of non cleared trades, the timing would vary depending upon type of margin, IM or VM.

(b) How prevalent is the existence of different settlement timings (T+0, T+1, T+2, T+3) within a given jurisdiction? Would the settlement timing for the initial margin posted different from the one for initial margins collected?

As stated above, there should be distinction between cleared and non cleared trades.

Other comments on the data elements related to margins:

The data elements related to margins should have a clear distinction between cleared and non cleared products, as the margin requirements may be vastly different in both these cases.

2.29 Indicator of intraday variation margin calls

Comments on the data element "Indicator of intraday variation margin calls":

The data element is adequately defined. However, if there are several intra day variation margin calls, of which only some are met, then a separate indicator may be required as and when applicable in the case of cleared trades.
Variation Margin requirements are not yet made applicable in case of non cleared trades in our jurisdiction and hence we are not be able to comment on the same.

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

This data element is adequately defined and covers the various possible scenarios. However this is applicable more in the case of a non cleared product. These options may not be applicable for cleared products.

2.31–2.35 Data elements related to counterparty rating trigger

Q3: With reference to the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.34):

(a) For each alternative of the data element "Counterparty rating trigger indicator", do definitions and allowable values accurately reflect provisions contained in collateral agreements or master agreements covering OTC derivative transactions to protect parties from counterpart credit deterioration? How prevalent currently are counterparty collateral rating triggers or comparable automatic-termination provisions in collateral agreements or master agreements? How, if at all, have recent changes to market practices affected the prevalence or the form of counterparty collateral rating triggers or comparable automatic termination provisions?

Based on the internal credit rating, step up margin may be imposed for lower rated members. On rating downgrade, additional margin (collateral) is required from the participants. At the time of admission to the segment for clearing, the same is advised and forms a part of the rules which govern the membership. For cleared trades also, this indicator may be applicable.

(b) Are the advantages and disadvantages of the proposed harmonisation alternatives of the data element "Counterparty rating trigger indicator" appropriately defined? If not, which aspects should be revised and how? Which of the proposed harmonisation alternatives should be supported and why?

No comments

Q4: With reference to the alternatives proposed for the data element "Counterparty rating threshold" (Section 2.32):

(a) Are the advantages and disadvantages of the proposed harmonisation alternatives appropriately defined? If not, which aspects should be revised and how?

No comments

(b) Which of the proposed harmonisation alternatives should be supported and why?

No comments

Q5: The definition of the data element "Incremental collateral required" (Section 2.33) relies on the assumption that the effects of multiple-notch downgrades are roughly linear. Are there instances in which the effects increase more than linearly with the number of notches in a hypothetical downgrade? If so, how could multiple scenarios be encompassed in the definition?

No comments

Other comments on the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.35):

No comments

2.36 Clearing obligation in the jurisdiction of the reporting counterparty

Comments on the data element "Clearing obligation in the jurisdiction of the reporting counterparty":

No comments on this data element as it has been adequately defined.

2.37–2.41 Data elements related to "Price"

Q6: With reference to the data element "Price" (Section 2.37), are there OTC derivative transactions products where the price or a concept of price is not captured under the "Price" data element or any other data element including "Fixed rate", "Spread", "Strike price", "Option premium" and "Other payment type (upfront payment)"? If so, please provide detailed examples of those products. Would the industry benefit from additional guidance for the "price" data element?

No, in the case of all OTC Derivatives reported to CCIL-TR, the concept of price is adequately covered. No further guidance is required for the "price" data element.

Q7: With reference to the data element "Price notation" (Section 2.40), is it clear and unambiguous which price notation (amount or percentage) should be applicable to each price? If not, which ones? Are there additional price notations that should be allowed? If so, which ones? Would the industry rather benefit from additional guidance for the "price notation" data element?

For the products reported to CCIL-TR, the price notations are sufficient. No other price notations are required.

Q8: With reference to the data element "Price unit of measure" (Section 2.41):

(a) Can commodity derivatives be negotiated in different unit of measures for the price and quantity? If so, would industry support two separate data elements for the (1) Price unit of measure and (2) Quantity unit of measure?

NA, as commodity derivatives are not reported to CCIL-TR.

(b) The list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.

(i) Are the values useful for reporting the Quantity Unit of Measure and the Price Unity of Measure?
(ii) If not, which ones are less useful and why?
(iii) Are there other values that should be added? Which ones, and why?
(iv) Are there duplicates or similar values that should be removed?

NA, as commodity derivatives are not reported to CCIL-TR.

Other comments on the data element "Price", "Price schedules", "Price currency", "Price notation" and "Price unit of measure":

NA, as commodity derivatives are not reported to CCIL-TR.

2.42–2.50 Data elements related to "Fixed rate", "Strike price" and "Option premium"

Q9: With reference to the data element "Spread notation" (Section 2.45), is it clear and unambiguous which notation (amount or percentage) should be applicable to each spread? If not, which ones? Are there additional spread notations that should be allowed? If so, which ones? Would the industry benefit from additional guidance for the "spread notation" data element?

The spread notations are clear and unambiguous. No additional spread notations are required by CCIL-TR at this stage.

Other comments on the data element "Fixed rate", "Spread", "Spread currency", "Spread notation", "Strike price", "Strike price currency", "Strike price schedules", "Option premium", "Option premium payment date":

None

2.51–2.52 Data elements related to "Exchange rate"

Comments on the data element "Exchange rate" and "Exchange rate basis":

For both the exchange rate and exchange rate basis, the market convention should be used.

2.53–2.54 Notional amount and Notional amount schedules

Q10: With reference to the data element "Notional amount" (Section 2.53), are there particular cases where the notional amount may not always be known when a new transaction is reported and may be updated later? If so, which ones?

For the OTC derivative products dealt in India and reported to CCIL-TR, the notional amount is always known and is specified at the time of reporting.

Other comments on the data element “Notional amount” and “Notional amount schedules”:

None

2.55–2.57 Data elements related to "Total notional quantity"

Comments on the data element "Notional quantity schedules", "Total notional quantity" and "Quantity unit of measure":

None

2.58–2.63 Data elements related to "Other payments"

Comments on the data elements "Other payment amount", "Other payment type", "Other payment currency", "Other payment date", "Other payment payer", "Other payment receiver":

Not applicable

2.64–2.71 Data elements related to "Packages"

Q11: With reference to the data element "Package trade price" (Section 2.66), could it be agreed that two possible situations may arise: (i) a package price does exist because all the transactions that represent individual components of the package are priced jointly, or (ii) a package price is not available because all the transactions that represent individual components of the package are priced individually? Is more clarity needed regarding the reporting of "Package trade price" and prices of individual components?

We agree with the two possible situations stated above that may arise in case of "Package Trade Price". No further clarity is required regarding the reporting of "Package trade price" and prices of individual components.

Other comments on the data elements "Package ID", "Package trade price", "Package containing non-reportable components", "Package trade price currency", "Package trade price notation", "Package trade spread", "Package trade spread currency" and "Package trade spread notation":

None

2.72 Prior UTI

Q12: With reference to the data element "Prior UTI" (Section 2.74), how is "Prior UT"I represented when clearing and allocation happen at the same point in time? And how is "Prior UTI" represented when clearing and compression happen at the same point in time, as a single event? Do such cases of clearing and compression and clearing and allocation as a single event happen frequently?

In our case trade ID (prior UTI) is always the UTI when the original Trade was first reported and matched. For all subsequent events like novation, compression or life cycle events, a new ID is created. However, the original Trade ID (UTI) is always linked to the trade which ensures complete trail of the trade.

Other comments on the data element "Prior UTI":

None

2.73–2.77 Data elements related to "Custom baskets"

Q13: With reference to the data element "Basket constituents unit of measure" (Section 2.74) the list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.

(a) Are the values useful for reporting the "Basket constituents unit of measure"? If not, which ones are less useful and why?

NA

(b) Are there other values that should be added? Which ones, and why?

NA

Q14: With reference to the data element "Custom basket code" (section 2.75)

(a) would it be preferable to separate the information on the LEI of the basket issuer and the unique alphanumeric code assigned by such issuer to the custom basket? If so, please explain why this would be preferable for global aggregation.

NA

(b) are there types of custom basket for which the "issuer of the custom basket" is not clear? If so, please provide detailed examples of those custom baskets. Would the industry benefit from additional guidance for the term "issuer" in the "Custom basket code" data element?

NA

(c) are 52 alphanumeric characters after the LEI of the basket issuer enough?

NA

Other comments on the data elements related to custom baskets:

NA

Other comments

None