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

CCP12 is a global association of 36 major central counterparty ("CCP") organizations in Europe, Asia and the Americas. CCP12 was formed to share information, develop analyses, and develop policy standards for common areas of concern. CCP12 members work toward the common purpose of creating conditions in which a global CCP solution can emerge to meet the needs of the marketplace.

CCP12 thanks the Committee on Payments and Market Infrastructures ("CPMI") and the Board of International Organization of Securities Committsions ("IOSCO") for the opportunity to comment on the Consultative report, Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch. In many markets, CCP's must act as reporters of OTC derivatives transactions and therefore CCP12 is interested in this consultation because of its impact on CCP12's members reporting obligations. In general, we note that the definitions are written primarily from the perspective of bilateral market reporters, e.g. reference to Master Agreement's Credit Support Annex, and CCP12 asks that the final guidance be updated to account for cleared reporters to recognize that the structures within the cleared market may be different to those in the bilateral market.

CCP12 has prepared the below comments in hopes they will further the CPMI-IOSCO goals of improving transparency, mitigating systemic risk and preventing market abuse.

1. Incorporate specific examples pertaining to each data element, with examples for both bi-lateral and cleared reporters

To reach a better understanding of each data element, it would be helpful to include examples for data elements whenever possible by CPMI-IOSCO. The addition of these examples will help regulate the use of these data elements across the industry and allow for deeper insight into the application of each data element.
In addition, it would be useful to provide examples for cleared reporters as the current report focuses more heavily on bi-lateral reporting. By expanding the scope of the report to also include cleared reporting, it can provide a deeper knowledge in regards to the data elements under each specific reporting entity. Mechanics of central clearing are often very different from that of bi-lateral trade processing, and thus distinctions for cleared reporters should be made clear in the final guidance. The inclusion of these examples can help eliminate the probability of inconsistencies under cleared reporting and allow for a more complete report.

2. Eliminate the use of padded zeros

CCP12 recommends not using padded zeros as a place holder in allowable values. The padded zeros have the potential to cause additional confusion regarding the allowable value and can lead to certain reporting inconsistences. The elimination of these padded zeros can help standardize the allowable value format which can lead to greater success in reaching the CPMI-IOSCO goals.

3 . Utilize industry standard formats

It would be beneficial to exclusively use industry standard language throughout the report whenever possible. Adhering to industry standard language will help reduce uncertainty regarding the data elements and maintain standardization across the industry. The familiar language will allow market participants to effortlessly connect this report's data elements to other related reports further increasing transparency across the industry through its standard and clear language.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

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)?

(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.

(c) Are the 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?

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

CCP12 asks that this data element be thought through from the perspective of a cleared reporter. CCP's accept payments to cover obligations related to variation margin, initial margin, default funds, etc, and so we ask that this definition be thought through from the perspective of a cleared reporter for a centrally cleared portfolio.

2.3 Portfolio containing non-reportable component

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

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?

(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?

Other comments on the data elements related to margins:

Please find below CCP12 prepared remarks to the following topics related to margins reporting:

End of Day

CCP12 asks that this section of the report be expanded to include additional information regarding how cleared reporters should take data elements with specific end of day timelines into consideration. In the context of central clearing, determining the end of day settlement timeline is simple given that CCP's have very transparent settlement timelines. However, a CCP's end of day settlement timeline can often conflict with what the original trade counterparties would consider as an end of day settlement timeline. CCP12 recommends that the end of day point which reflects the completion of all processing for the business date being reported serve as a guidepost for the given end of day cutoff. CCP12 asks that an example of how to report a centrally cleared trade by both cleared reporters and bi-lateral reporters for the same trade to be included in the final guidance to remove any uncertainty over how to report fields related to settlement timelines.

Account Level

CCP12 notes that in the context of central clearing, accounts are often maintained at a position, margin, and collateral level. Different segregation models for central clearing across jurisdictions can lead to difficulty in how cleared reporters should report these values. In order to achieve a higher level of transparency, CCP12 believes it would be helpful if the collateral related fields were thought through from the context of centrally cleared portfolios and examples were provided.

Initial Margin

The use of "initial margin" as a descriptor throughout the text should always be clarified as either pertaining to a requirement, or as posted. Confusion between initial margin liability, also interpreted as initial margin requirements, and initial margin posted, also interpreted as collateral delivered, require distinction throughout the document given the importance of the difference. From a CCP perspective it may be simplest to consider initial margin posted as the collateral for which the CCP is giving cover value. This may help provide a clear and consistent interpretation and avoid confusion over how to treat scenarios such as the following:

- Where the CCP has received an irrevocable commitment by the member to deliver collateral but the delivery has not yet been completed
- Where a clearing member has requested withdrawal of collateral, resulting in the collateral being removed from cover value, but the delivery back to the member has not yet completed

Excess Collateral

From a CCP perspective excess collateral is typically only calculated in the context of post haircut values. Pre-haircut excess collateral values may not be available depending on the processing methodology of the CCP.

Additionally, in some cases CCPs allow clearing members to allocate excess collateral across clearing services, and therefore tagging a portion of excess collateral to a portfolio of trades may not be possible. Given this possibility, CCP12 asks that this data element be thought through from the perspective of a cleared reporter.

Post Haircut Values

CCP12 believes it unnecessary for post haircut values to be reported from the perspective of a party posting collateral. Receivers of collateral are more appropriate to report the post haircut value of the collateral received.

2.29 Indicator of intraday variation margin calls

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

CCP12 notes that it is possible for an initial margin call to be conducted intraday as well and so we ask if this attribute should take that into consideration.

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

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?

(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?

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?

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

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?

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):

CCP12 notes that from the perspective of a cleared reporter, these fields are typically not applicable. While CCPs may employ additional margin requirements based on counterparty credit rating, these requirements are disclosed in the CCP's rules and membership requirements.

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":

CCP12 notes that this field is not necessary given that the criteria with which to determine a clearing obligation is present in the other reported fields. CCP12 recommends this field be removed from the final guidance.

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?

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?

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?

(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?

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

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?

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":

2.51–2.52 Data elements related to "Exchange rate"

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

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?

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

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":

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":

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?

CCP12 notes that jurisdictional differences exist with regards to the definition of Package ID's, and alleviating those differences would assist efforts to increase transparency. CCP12 interprets this guidance does not apply to allocations and requests confirmation in the final guidance.

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":

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?

Other comments on the data element "Prior UTI":

Clearing either occurs pre or post allocation, and compression typically happens at an end of day cycle. These events should be identifiable through trade and positions UTI's.

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?

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

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.

(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?

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

Other comments on the data elements related to custom baskets:

Other comments