

CME Group response to the CPMI-IOSCO consultative report on Harmonisation of a first batch of key OTC derivatives data elements (other than Unique Transaction Identifier, UTI, and Unique Product Identifier, UPI) – October 2015

CME Group welcomes the opportunity to provide input to the CPMI-IOSCO consultative report on Harmonisation of a first batch of key OTC derivatives data elements (other than Unique Transaction Identifier, UTI, and Unique Product Identifier, UPI). Please find below our response to each question.

Question 1

With reference to alternatives proposed for data elements included in the group “Date” (data elements 1.01, 2.01) and “Timestamp” (data element 8.03 in List 1 and data element 2.02 in List 2)

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

CME - Disadvantages - There would be increased burden to report the timestamp for market participants. The timestamp would be of limited use for systemic risk monitoring. Furthermore, the UTC timestamp presents time zone based difficulties with regards to where venues are located.

- b) Is the proposed default value sufficiently unambiguous? Will users of TR data be able to distinguish between the default value for timestamps and reported timestamps? If this would not be possible, what alternative do you suggest?

CME - 23:59:59 could be a good alternative as this crystalizes the exact day that the effective date timestamp states

- c) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - We support option 1 if it does not relate to market surveillance as the granular timestamp that option 2 provides would be better suited to this.

Question 2

With reference to alternatives proposed in the allowable values for the data element “Cleared”:

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

CME - Disadvantages of alternative 1 is that it may not cover all iterations and may need further additions.

- b) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - It is worth having the added granularity however, CME with its existing infrastructure is able to determine what type of clearing activity the trades are by the UTI so this information becomes

redundant. Also in the presence of a foreign omnibus account structure set up there may exist scenarios where these distinctions may not be determined - we therefore support alternative 2.

- c) Are the proposed alternatives sufficient to accommodate the potential need to distinguish between direct and indirect clearing?

CME - No, neither alternative is able to make this distinction.

Question 3

With reference to the definition of “ID of the primary obligor 1” (data element 5.01) and “ID of the primary obligor 2” (data element 5.02):

- a) Would the guidance be sufficiently clear in the case of original and cleared trades, taking different clearing models into consideration?

CME – With the combination of the buyer/seller and other data fields, there will be enough information provided on the clearing model and participants.

- b) Would the guidance be sufficiently clear in the case of trusts or collective investment vehicles?

CME – No response

Question 4

With reference to the definition for “Notional amount”:

- a) Should guidance be complemented by a definition of “leg 1” and “leg 2” or are market conventions already clear? In the former case, which definition would you suggest? If relevant, please provide an asset-class specific answer.

CME - Market convention should be applied

- b) As regards FX derivatives, the solution proposes only two notional amounts based on the assumption that for FX swaps the spot and the forward leg are represented as two separate transactions with separate UTIs linked via a linkage data element. Should the Harmonisation Group take into consideration an additional alternative? If yes, which one and why? For example, should the Group require a total of four FX notional amount data elements namely two notional amount data elements to represent the two currencies associated with each leg of the swap?

CME – We believe that two notional amounts should be reported in line with the US approach.

- c) Should the Harmonisation Group in the future decide to provide harmonisation guidance also for the notional amount of commodity derivatives, which aspects should it take into account? How should this potential harmonisation proposal be defined for different commodity derivatives?

CME - We would welcome guidance for reporting notional amounts for commodity as there have been significant debates with regards to this.

Question 5

With reference to alternative 1, which harmonises both the actual “Notional amount” (Data elements 6.01 and 6.02) and the “Original notional amount” (Data element 6.04), versus alternative 2, which harmonises only the actual “Notional amount” (Data elements 6.01 and 6.02):

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

CME - We agree.

- b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - We continuity we support alternative 2 as we currently do this. However, we see merit in alternative 1 but see that it is more challenging to implement.

Question 6

With reference to alternatives proposed in the allowable values for the data elements “Notional currency” (alternative 1 and 2):

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

CME - The disadvantages of alternative 1 far outweigh any, if there are indeed any, in alternative 2. The disadvantages in alternative 1 is that methodology could be interpreted differently thereby causing calculation risk, there would be an added layer of processing to perform this calculation and without clear guidance there could be a disparity in the rate used between counterparties.

- b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - We support alternative 2 and strongly advocate currencies to be added to ISO 4217 to allow for products that are currently traded. For example, if CNH was added it would allow for greater granularity and certainty of currency in the traded contract. There may be a delay in getting ISO 4217 amended to include these other currencies.

Question 7

With reference to the data element “Valuation amount”:

- a) Are the two proposed alternatives agreeable? Please specify for which types of derivatives which of the alternatives should apply.

CME - The proposed approaches are agreeable, we would suggest Alternative 1 would apply to futures and futures style instruments, and Alternative 2 would apply to OTC instruments as akin to the Net Present Value.

- b) Should the following factors, upfront payment and daily settlement of the derivatives transaction, be reflected in the valuation amount? If yes, please specify how.

CME - We would suggest the inclusion of applicable upfront payments in the amount in order to capture their presence.

Question 8

With reference to alternatives proposed for included in the group “Valuation” (data elements 8.04 and 8.05):

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

CME - We would add that a potential disadvantage of alternative 2 is there would be an increase in operational implementation by introducing a new option within an existing field as opposed to adding a new field.

- b) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - We prefer alternative 1 as it gives added granularity on where the type of valuation method comes from which alternative 2 does not. The difficulty could arise for EMIR where they would need to add an additional field in valuation which would have an effect on all reporting entities to make system enhancements.

Question 9

With reference to alternatives proposed for the data element “Direction”:

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

CME - The advantages are well defined, especially since Alternative 1 is already in place in a number of jurisdictions.

- b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

CME - We suggest Alternative 1 is the best approach for the reasons described, however we are aware there is some disagreement with the proposals direction descriptions, especially in IRS. We recommend rationale be included here to explain the logic used in the proposal. We see merit in Alternative 2, however this may be overly burdensome to implement and would be less straightforward to apply to futures, where alternative 1 is logical.

- c) Are the proposals sufficiently robust for transactions with multiple legs? With reference to Alternative 1, can the counterparty side (buyer/seller) clearly identify the parties paying each relevant payment stream? With reference to Alternative 2, is the payer of payment streams an applicable concept for all payment streams? Responses illustrated with worked examples where applicable would be appreciated.

CME - The proposals cover many large product tranches, however we expect there will be a number of exotic derivatives which will pose a challenge to apply this to.