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By Email & Overnight Delivery

Re: Recommendations to the Second Consultative Report on the Proposed Approach to the Harmonisation of the Unique Product Identifier (UPI)

Dear Ms. Picillo, Monsieur Troussard, and Mr. Sharma:

On behalf of CUSIP Global Services, which is operated for the American Bankers Association (“ABA”) by S&P Global, Inc., we hereby submit our comments to the ***CPMI-IOSCO Harmonisation of the Unique Product Identifier Second Consultative Report*** published August 2016.

Executive Summary

As the operators of the CUSIP system for the ABA since 1968, we applaud and support the efforts of CPMI and IOSCO to enhance coordination of standard and policy development to promote standardization of OTC derivatives products that authorities require, or may require in the future, to be reported to Trade Repositories (TRs). Given our sole mission to provide unique identification for global Issuers, Obligors and their related financial instruments, we believe we can provide valuable insight into the range of key challenges and possible solutions in this endeavor.

The following sections are offered in the spirit of industry collaboration and transparency, offering our specific, practical experience in global data operations and standards development.

Background

CUSIP Global Services (“CGS”) is dedicated to driving efficient trading, clearing and settlement in capital markets throughout the world by providing a unique common language for identifying financial instruments, their Issuers, and Obligors across institutions, exchanges and nations. With over 45 years of

experience in the standards and identification businesses, CGS works closely with global market participants to develop innovative solutions to reference data challenges. A Board of Trustees comprised of representatives from leading financial institutions has oversight of CGS and has been instrumental in ensuring CGS is proactive in meeting industry requirements.

It is important to note that CUSIP's Issuer / Instrument identification system was born out of industry need, similar to conditions driving the need for a standard that uniquely identifies a derivative product. In July 1964, the New York Clearing House Association approached the ABA to develop a way to improve operating efficiencies across the industry by developing a standard method of identifying securities and their Issuers. The Committee on Uniform Security Identification Procedures (CUSIP) was created to work on this issue.

This resulted in the establishment of the CUSIP system and in 1968 the CUSIP Service Bureau was formed to administer the system. Over the years, the organization's core competencies in standards development, identification and data management, as well as strong relationships with industry stakeholders, positioned it as a catalyst for innovation. As coverage expanded to include new asset classes, their issuers, obligors and associated geographies, CGS emerged as the overarching entity for all CUSIP offerings.

History of CGS and Global Standards Development

CGS has been an ardent and vocal supporter and leader of ISO standardization efforts for more than 3 decades, and has worked in close cooperation with our colleagues across the global capital markets on a myriad of successful ISO technical committees, working groups and task forces to effect meaningful change. Of particular note:

- CGS is a founding member of The Association of National Numbering Agencies ("ANNA"), which officially formed in 1991 with 22 country members and has now grown to more than 120 members and markets. As the organization's most prolific numbering agency, CGS has been a leader in ANNA's efforts to successfully act as the Registration Authority ("RA") for the ISIN cross-border instrument standard (ISO 6166).
- CGS was a leading force in the pre-ANNA ISIN Experts group, culminating in the first ISIN standard in 1978, has helped draft the International Guidelines for implementation of the standard (WG2), and today operates the ANNA Service Bureau ("ASB"), the only central hub of daily ISIN activity from all participating markets, on behalf of ANNA and global market participants. The ANNA database today contains more than 37 million ISINs and related data, and is made available on an uninterrupted basis to customers and ANNA's worldwide on reasonable and non-discriminatory terms.
- Similarly, CGS has been a driving force in ANNA's successful bid to implement a related capital markets standard, the Classification of Financial Instruments Code (the "CFI", or ISO 10962) since 1997. CGS was the first global NNA to implement the CFI Product code to identify granular instrument-level attributes across borders in its local market in December, 1996, and today, CGS manages more than 33 million CFI identifiers for the global markets in the ASB database.
- CGS has also led the global effort to develop a standardized system to identify the descriptive data associated with a financial instrument and its issuer within a useable framework. The resulting ISO standard (ISO 18774 – Financial Instrument Short Name) and associated Abbreviation standard (ISO 18773) were finally approved in 2008, and draw in large part on the standard descriptive rules and abbreviations created by CUSIP and the American Bankers Association in the United States. CUSIP assists ANNA in acting as Registration Authority for these two standards as well, and their importance in the global capital markets is growing each year.

Key Concepts

We agree with the Key concept that a derivative product can be uniquely characterized by various data elements which can be grouped into three categories: (i) instrument type; (ii) instrument characteristics; and (iii) the underlier's information. CGS believes in the representation of a code using a series of alphanumeric characters.

- *Instrument Type* - the instrument level categories (Credit, Equity, FX, Rates, Commodities) outlined in the report are sufficient
- *Instrument Characteristics* – we believe venue and settlement date/maturity date are missing from the Rates and Credit characteristics. CGS recommends the use of the master list of attributes and enumeration data values describing the table of fields, data descriptions, enumeration samples and elaborations in the Allocation Rules for **ISIN CODES for OTC DERIVATIVES RELATING TO ISO 6166 (1st edition) dated June 2016**.
- *Underliers information* – We believe it's important to include identifiers of the asset(s) or index (indices) underlying the transaction to improve the likelihood of uniquely identifying the derivative product. More on this specific topic further on in this response.

There already exists a broadly accepted, globally implemented, and highly successful ISO standard to uniquely identify financial instruments – ISO 6166, the ISIN Standard. The ISO 6166 technical standard is authored and maintained by the 120+ global exchanges and depositories that act as National Numbering Agencies (NNA's) within their designated jurisdictions – provide a time-tested, highly flexible and scalable methodology that undergoes regular ISO review and expansion to meet the changing needs of the global marketplace. Given the continued growing usage of local/ISIN identifiers, the user community seems to agree. User community surveys on ISIN and associated local identifiers that support this cross-border standard are exceptionally high.

CGS supports ESMA's approach to leveraging the existing ISO 6166 standard and is actively working with the TC68/SC4/SG2 Study Group on ISIN Allocation for OTC Derivatives to successfully implement an approach to product level derivative identification that works for all market participants and recommends that ISIN be used in lieu of the UPI. The ISIN is already in use for exchange traded derivatives and assigned to a limited subset of OTC derivatives (MAC Swaps) by CGS in coordination with SIFMA.

The introduction of another identifier will lead to market confusion and unnecessarily introduce additional costs for financial service firms to cross reference multiple derivative product identifiers, bringing the Industry back to a time when the global financial systems spoke different languages and the presence of multiple identifiers overwhelmed systems. Haven't we evolved from the financial Tower of Babel and solved this problem already with the interoperability of the ISIN?

Principles and High-Level Business Specifications for the UPI

CGS generally agrees with the 15 revised principles¹ laid out in Section 3 of the report and has selected a few principles to provide additional commentary on for further consideration.

CGS strongly agrees with the stated definition of **Adaptability** and believes that it should adapt swiftly to market changes and innovations, including the introduction of new OTC derivative products. CGS, in conjunction with ISO and our ANNA colleagues, applied this versioning concept by incorporating changes to the ISO 10962 (CFI) standard. The CFI code has been developed to address a number of problems which have concerned the financial community on the past years. Among others the following

problems have affected the financial community:

- Lack of consistent and uniform approach to grouping financial instruments
- Use of similar terminology for instruments having significantly different features in the different countries
- Inability to group securities in a consistent manner leading to reports of holdings being categorized differently.

The benefits of adapting the CFI standard to accommodate for current day challenges are:

- Definition and description for an internationally valid system to classify financial instruments
- Provision of a set of codes to be used by all market participants in an EDP environment and permission of electronic communication between participants
- Improved understanding of the characteristics of financial instruments will lead to a better understanding by investors.

Compatibility - There already exists a broadly accepted, globally implemented, and highly successful ISO standard to uniquely identify financial instruments – ISO 6166, the ISIN Standard. The ISO 6166 technical standard is authored and maintained by the 120+ global exchanges and depositories that act as National Numbering Agencies (NNA's) within their designated jurisdictions - provide a time-tested, highly flexible and scalable methodology that undergoes regular ISO review and expansion to meet the changing needs of the global marketplace. Given the continued growing usage of local/ISIN identifiers, the user community seems to agree. User community surveys on ISIN and associated local identifiers that support this cross-border standard are exceptionally high.

CGS believes in and has a long history promoting the principle of **Precision**. An identification schema should be specific with sufficient detail and level of granularity to enable market participants to fulfil their operational and regulatory reporting obligations. It should describe relevant data items with sufficient distinctiveness and specificity to meet the needs of the market.

Public dissemination - CGS has years of experience handling time sensitive materials in the pre trade market environment related to forthcoming IPO's and other non-public offerings and believes that it's critical that the public dissemination of information has the necessary controls and validations in place to ensure the identifies of the counterparties are concealed and that there is a clear demarcation of public vs private data.

Intelligent and Dummy codes

As stated above, we believe the best solution is to incorporate the broadly accepted, globally implemented, and highly successful ISO standard - ISIN - to uniquely identify derivatives, however, if the decision is to create another code, which we strongly advise against, we generally recommend using a hybrid approach. Intelligent codes can be problematic due to the limited available range or combination of possible values and having to cross reference to a user guide or database table to decipher the intelligence embedded within the identifier, among other things, leading to potential costly data management errors. The intelligence of the product level derivative is best represented as attributes separated into individual fields.

There can be cases where a hybrid approach of limited intelligence within the structure of the code could work, as evidenced by the structure of the ISIN which applies rules that govern designation of the ISO Country Code into the first two characters of the ISIN. For example, for Equity issues: the country where the entity is incorporated, for US Domestic Debt Issues: the country where the lead manager is located, for International Debt Issues: the country where the Central Securities Depository is located. The LEI

¹ **Principles:** Jurisdiction neutrality, Uniqueness, Consistency, Persistence, Adaptability, Clarity, Ease of generation/acquisition/query, Long-term viability, Scope neutrality, Compatibility, Comprehensiveness, Extensibility, Precision, Public dissemination, Representation.

uses a similar approach, whereby the LOU that assigned the LEI is embedded through an intelligent code as a prefix to ensure uniqueness among codes from the LOUs. CUSIP Global Services also applies a similar approach using an intelligent structure that identifies Issuer and Issues, Equity or Debt and in a limited number of asset classes, most notably Options.

Questions Posed in the Report²

Does this consultative report cover the necessary topics to enable a uniform global UPI?

The Governance Model, although currently with the FSB and waiting on technical guidance for the UPI, is critical to any successful harmonisation effort and needs to be shared in order to intelligently opine on important issues like quality of the UPI data elements, the types of validations required to ensure consistency, reliability and usefulness, maintenance of the UPI system, timeliness of updates and deletions and prioritization of asset classes and projects. Both the operation of the ASB, through guidance from ANNA, & CGS, through its' Industry appointed Board of Trustees, operate well because of the governance supplied.

Are the proposals in this consultative report clear and unambiguous? CGS agrees that the proposals put forth are clear and the level of detail in this consultative report is adequate.

How should underlying assets and reference entities be represented in the UPI reference data library? Would LEIs be suitable, at least for corporate reference entities? Why or why not? Are there suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

As stated previously, we believe the best solution is to incorporate the broadly accepted, globally implemented, and highly successful ISO standard - ISIN - to uniquely identify underlying assets. Leveraging the ISIN for underlying asset identification is the most logical solution.

- **Comprehensive asset class coverage** - the ISIN already exists and is widely adopted across Credit, Rates and Equity segments, while also being applied to indices.
- **Globally Applicable** - the underlying ISIN is relied upon in over 120 jurisdictions and widely available and currently in use by Banks, Regulators & Government Agencies, Information Service Providers, Depositories & Exchanges, Broker Dealers, to name a few.
- **Systemically Compatible** - systems are programmed to be compatible with the 12 character code
- **ISO Standard** - the only standard in existence for financial instrument identification.
- **Adaptability** - In cases where the ISIN did not exist for an instrument or asset class it has demonstrated the capability to evolve to the needs of the market and assign where and when necessary.

No other alternative provides as compelling a reason.

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.

No, we do not see any obstacles to including the source of the identifier for the underlier as part of the reference data element for the underlier.

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

² CGS is responding to select questions. There may be additional questions put forth in the report that CGS chooses not to answer.

may exist.

We think it's reasonable to expect industry best practices with respect to including basic terms of use of any underlying information that would accompany the requirement for free accessibility, including a public notice provision.

We believe it's appropriate for the industry to be respectful of these important concepts described below:

- a.) concept of using the data to support regulatory reporting - the underlying proprietary content is for non-commercial use to fulfill regulatory reporting obligations;
- b.) not to be used for commercial purposes;
- c.) not to be modified or create derivative works from any the proprietary benchmarks and indices or use the data for any commercial purpose, without the express prior written consent of the source;
- d.) Operators of any UPI system leveraging the underlying proprietary content should reasonably expect to enter into a short form agreement with source provider.

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?

CGS generally believes in a limited hybrid approach with regards to financial instrument identification, as stated above. Specifically, we believe it's generally better data management practice to include intelligent reference data attributes, like the underlying identifiers - ISIN and LEI - in separate fields.

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 risk of duplication associated with the UPI is significant, given the number of existing identifiers in use today. The 12-character schema is already provided for by many market participants, signaling, in our view, that ISIN and its 12-character format is indeed a broadly accepted standard. More specifically, the creation of another code will cause the real risk of duplication, market confusion and associated remediation costs for failed trades and miscommunication. The presence of another identification schema with associated reference data that carry with it different rules, lengths and applicability will unnecessarily introduce additional costs for firms needing to cross reference multiple standards for the same financial instrument.

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

Yes, it is common practice to have validations in place including a check digit, regardless of whether it's a dummy or intelligent code. This is something CGS pioneered years ago.

Observations & Request for Clarification

The proposal of a variable length code to accommodate different products with different sets of characteristics presents significant challenges. In our opinion, this would likely result in a costly implementation leading to potential inconsistency ultimately resulting in a greater degree of risk at a time when the Industry is investing heavily to manage and reduce risk. One of the reasons that the ISIN and LEI, two ISO standards, are successful is because there is consistency across geographies, asset classes, NNA's and LOU's, respectfully.

There seems to be duplicative work happening at the same time by a variety of standard setters and international organizations, so how does the work undertaken by ISO through the ISO/TC 68/SC 4 - OTC Derivative Identifiers Study Group 2 coexist with the work being done here? How will the inevitable overlapping identification differences be resolved? What is the process for reconciling differences? Is the thinking within the Committee that there will be multiple identification requirements for the same financial derivative product that are required depending on jurisdictional needs? Why not just use the ISIN? Will there be a central point of ingestion, scrubbing and publishing of UPI data elements and, if known at this point in time, will that be operated by one or many parties?

Conclusion

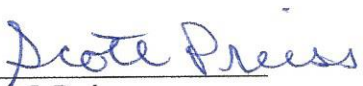
CUSIP Global Services is committed to fostering industry transparency, supporting global market participants in meeting its requirements to mitigate systemic risk and protecting against market abuse.

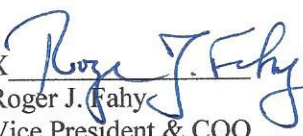
A vast majority of global firms are already “connected” to and rely on the ISIN system. We believe using this internationally accepted and widely adopted standard minimizes time-to-market, investment costs, and most importantly, helps market participants realize significant cost-savings much earlier than other options. Other options we have been exposed to do not seem to fully appreciate the sustained investment that maintenance of a UPI solution will require. CGS’s track record, as a founding member of ANNA, demonstrates alignment with our core competence, existing robust infrastructure and technical resources, and a long term commitment.

CUSIP Global Services looks forward to continued industry dialogue on the development of a derivative product identifier that optimally meets the demands of the global capital markets.

Respectfully submitted,

CUSIP Global Services

X 
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X 
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