

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

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General comments on the report:

DTCC applauds ongoing data harmonization efforts being undertaken by CPMI IOSCO and encourages continued coordination with the industry to ensure globally consistent and meaningful aggregation of data on over-the-counter ("OTC") derivatives transactions. DTCC believes that global adoption of a singular standard is paramount to these efforts. DTCC provides the below general comments for consideration, in addition to responses to questions outlined in the CPMI IOSCO consultative report:

1. DTCC strongly recommends that CPMI IOSCO, in its effort to create a definitive single standard, align with existing standards currently in use globally. This approach provides the most effective and efficient method to achieve harmonization given that these standards are currently in use by counterparties' reporting to trade repositories. While divergences in rules and requirements exist across jurisdictions with respect to the reports provided to regulators, DTCC recommends that global requirements outlining counterparties' reporting to a trade repository remain consistent. Rule sets required for specific regulatory reporting needs are best accommodated for at the trade repository. DTCC notes that guidance is not provided regarding whether the elements discussed herein are required for trade reporting from counterparties to a repository or for a trade repositories' reporting to regulators. Therefore, DTCC recommends that all attributes recommended be populated for counterparty regulatory reporting to trade repositories.
2. DTCC notes that FpML is the currently used industry standard for the OTC derivatives market. The FpML standard is used for confirmation, clearing and compression services of OTC derivatives for a large volume of trades and thus, many DTCC clients report data to DTCC trade repositories via FpML. While we will support a uniformly-accepted industry consensus, DTCC recommends that the considerable time and effort required for reporting parties to move away from FpML be carefully reviewed and factored into mandating a new standard for submission into trade repositories. Until such time as a final standard has been agreed, DTCC stands ready to accept FpML to support timely adoption of data element standards.
3. DTCC notes that significant strides have been made by CPMI IOSCO and the industry regarding the advancement of data harmonization initiatives. As these efforts progress, the need for trade repositories to map values in certain data elements to equivalent regulatory values where specifically prescribed will likely decrease. As stated above, DTCC recommends that when translation of the data is required, it should be performed by trade repositories rather than by reporting entities. If data is required to be translated before reporting to a trade repository, multiple points of failure could emerge depending on the workflow and result in erroneous reporting. For example, in the case of an electronically confirmed cleared trade, translation issues could occur at the trading counterparties' source system, on the confirmation platform, or at the clearing house. If one or more of these sources sent a report to the trade repository, it could result in misreporting due to translation issues. To assist global aggregation efforts, DTCC recommends that CPMI IOSCO provide technical standards for trade repositories to help ensure consistent translation of the data when required.
4. DTCC recommends CPMI IOSCO clarify population of the proposed "NULL" value. For reporting parties' submission into the trade repository, allowing for a value of "NULL" in every data element could erode data quality. It would also require numerous, costly changes to technical architectures and databases to accept such a "NULL" value. For example, storing "NULL" in a column designed to store monetary amounts undermines data quality and does not allow trade repositories to manage data effectively. In cases where data elements are required for reporting, DTCC recommends that CPMI IOSCO provide an alternative value to indicate that the data element is not applicable. Where the data element is optional for reporting and no data is received by the reporting counterparty, DTCC recommends that a "NULL" value be populated by trade repositories in reports to regulators.

2.1 Reporting timestamp

Comments on the data element "reporting timestamp":

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2.2 Execution timestamp

Comments on the data element "execution timestamp":

DTCC recommends CPMI IOSCO define the data element "execution timestamp" as a datetime element for trade reporting. This would minimize complications as currently differences exist in timestamps across jurisdictions. Additionally, CPMI IOSCO should clarify how the execution timestamp of bilaterally agreed lifecycle events should be reported.

2.3 Final settlement date

Q1: With reference to the definition proposed for the data element "final settlement date" (Section 2.3), is it sufficiently clear that the settlement date for options and swaptions is the date on which the option or swaption would settle if it was exercised on the expiry date? If not, should additional language be added to the definition to clarify that?

Other comments on the data element "final settlement date":

2.4 Settlement currency

Q2: With reference to the definition proposed for the data element "settlement currency" (Section 2.4), is it sufficiently clear that the settlement currency of swaptions is the currency of the underlying swap? If not, should additional language be added to the definition to clarify that?

The definition proposed for the data element "settlement currency" is not sufficiently clear. DTCC recommends that CPMI IOSCO clarify the definition to align with 2006 ISDA definitions as these industry standards are already in use globally. DTCC notes that the FpML standard is aligned with the ISDA cash settlement method and provides distinct fields for the currency of the underlying swap and swaption (in cases where the settlement currency is not the primary/used).

Other comments on the data element "settlement currency":

2.5 Confirmed

Comments on the data element "confirmed":

DTCC notes that a common standard for confirmation method - known as the confirmation method scheme - is currently in use for FpML reporting.

2.6 Day count convention

Comments on the data element "day count convention":

The data element "day count convention" does not appropriately capture market practices. DTCC recommends that the data element be clarified to include "day count fractions" and align with ISDA standards adopted by FpML and already in use globally.

2.7–2.8 Payment frequency period; payment frequency period multiplier

Q3: With reference to alternatives proposed for the data element "payment frequency period" (Section 2.7):

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

DTCC notes the advantage of proposed harmonisation Alternative 2 as it closely aligns to existing FpML standards, which are already in use globally.

Proposed harmonisation Alternative 1, however, presents a disadvantage due to the potential for reporting fragmentation. For example, one reporting party may define Payment Frequency as Quarterly, while another reporting party may define it as 3 Months.

- (b) Which of the proposed harmonisation alternatives should be supported and why? Is alternative 2 sufficiently broad to capture all the allowable values that are relevant for an OTC derivatives transaction? If not, which allowable values are missing? Should the list of allowable values under alternative 2 also include the value "intraday"? Please provide examples in which the additional allowable values that you propose would be relevant for an OTC derivatives transaction. Is it preferable to expand the list in alternative 2 with the missing allowable values or to opt directly for the most extensive list of allowable values available in alternative 1?

Given its alignment to existing industry standards, DTCC supports proposed harmonisation Alternative 2. It is sufficiently broad to capture allowable values relevant for OTC derivatives transactions.

DTCC defers comment regarding the value "intraday" to the practitioners in the industry who are best placed to evaluate potential inclusion.

DTCC believes it is preferable to expand the list in Alternative 2, which closely aligns to existing standards already in use globally. This option provides the ability for future expansion to allow for other allowable values that may emerge as the market evolves.

Other comments on the data elements “payment frequency period” and “payment frequency period multiplier” (Sections 2.7–2.8):

2.9–2.12 Counterparty 1 (reporting counterparty); counterparty 1 type; counterparty 2; counterparty 2 type

Q4: In the consultative report on the first batch of data elements (other than the UTI and UPI), the Harmonisation Group proposed the harmonisation of the “identifier of the primary obligor”. Based on the feedback received during the public consultation, the Harmonisation Group is considering referring to the same concept with the term “beneficiary”. With reference to data elements “counterparty 1 (reporting counterparty)”, “counterparty 1 type”, “counterparty 2” and “counterparty 2 type” (Sections 2.9–2.12):

- (a) Is it clear that in some jurisdictions the counterparty and beneficiary are always the same entity while in other jurisdictions they may or may not coincide?

For example, in the US the counterparty would always coincide with the beneficiary; in the EU this is not always the case as eg in a transaction concluded at the level of the umbrella fund, that fund would be identified as the counterparty, and the sub fund as the beneficiary.

Is it necessary to further clarify the term “counterparty” or is it clear enough?

DTCC believes the definition proposed for counterparty 1 is clear enough as long as the explanation provided, “In the case of an OTC derivatives transaction executed by a fund manager on behalf of a fund, the fund and not the fund manager should be reported as counterparty,” is present.

DTCC questions whether the concept of beneficiary has any value given the requirement for a fund to be counterparty 1 and not the fund manager. A possible solution to provide regulators with a view into the executing party could be the use of an Execution Agent field as DTCC suggested in our response to Batch 1 – primary obligor.

- (b) Are there cases in which a transaction involves multiple counterparties that are jointly liable for the whole amount of the transaction? If so, how do you believe that multiple counterparties should be represented?

Given the very limited number of cases in which a transaction involves multiple counterparties that are jointly liable for the whole amount of the transaction, DTCC recommends that one ID be used for reporting. These cases would need to be differentiated as follows for the regulators so the trades can be recognized.

DTCC recommends that firms submitting trades with joint and several parties populate the following on the submissions based upon submission type either a comma separated value file or FpML file:

- CSV: Additional Comments field should be set to "Joint and Several"
- FpML: The "category" element in partyTradeInformation in FpML should be populated with the value of "Joint and Several"

- (c) In addition to reporting counterparty 2 type, what approach should be taken for natural persons not acting in a business capacity as counterparty 2?

DTCC believes that natural persons should be identified by internal identifiers issued by the reporting counterparty.

Other comments on the data elements "counterparty 1 (reporting counterparty)", "counterparty 1 type", "counterparty 2" and "counterparty 2 type" (Sections 2.9–2.12):

DTCC requests further details and specifications regarding which entity should be reported as Counterparty 1 (reporting counterparty). In cases where both counterparties have an obligation to report and both have submitted to the same trade repository, guidance is needed as to which counterparty should be reported to the regulator as Counterparty 1. Further guidance is also needed regarding Third Party submitters and cases where both Counterparties have an obligation to report however neither are the submitter.

For "Counterparty 1 type," DTCC encourages establishment of consistent rules regarding use of the Global Legal Entity Identifier Foundation's (GLEIF) validation of data.

To clarify potential ambiguity, DTCC also recommends CPMI IOSCO clarify the definitions of "Counterparty 1 and 2 type."

2.13 Report-submitting entity

Comments on the data element "report-submitting entity":

2.14 Broker of counterparty 1

Comments on the data element "broker of counterparty 1":

2.15 Central counterparty

Comments on the data element "central counterparty":

2.16 Clearing member

Comments on the data element "clearing member":

2.17 Platform identifier

Comments on the data element "platform identifier":

DTCC strongly recommends use of the legal entity identifier "LEI" as it is the existing industry standard already in use globally. DTCC also notes that a MIC code does not currently exist for all OTC derivatives platforms.

2.18 Inter-affiliate

Q5: Should the definition of the data element "inter-affiliate" (Section 2.18) take into account the possibility that there is no local definition of affiliated entities under the local regulation of counterparty 1 (reporting counterparty), or is this redundant?

Other comments on the data element "inter-affiliate":

2.19 Booking location of counterparty 1

Q6: With reference to the data element "booking location of counterparty 1" (Section 2.19), is it clear that the location where the transaction is booked for counterparty 1 refers to the location where profit and losses are allocated (be it the location of the headquarters, domestic branch or international branch)?

No. DTCC recommends that CPMI IOSCO augment the current definition of the data element "booking location of counterparty 1" by including information provided in the question above. For example, it would be beneficial to include "location where profit and losses are allocated (be it the location of the headquarters, domestic branch or international branch)" in the current definition.

Other comments on the data element "booking location of counterparty 1":

2.20 Location of counterparty 1's trading desk

Q7: With reference to data element "location of counterparty 1's trading desk" (Section 2.20), is it sufficiently clear who is being referred to as the trader "responsible for executing the transaction"?

DTCC believes it is sufficiently clear who is being referred to as the trader "responsible for executing the transaction" provided that CPMI IOSCO is referring to the primary physical location where the trader works.

Other comments on the data element "location of counterparty 1's trading desk":

2.21–2.22 Strike price; strike price notation

Q8: With reference to data elements "strike price" and "strike price notation" (Sections 2.21 and 2.22) is the proposed format length for "strike price" (Num(18,13)) sufficiently big for strike prices denominated in any currency? If not, what would be an appropriate format length, both for characters before the decimal point and characters after the decimal point?

DTCC recommends CPMI IOSCO increase the format and allotted precision before the decimal point to approximately 30. DTCC notes that it currently supports "strike price" data elements with format lengths of Num(30,8) and Num(30,18).

Further guidance is needed to clarify rounding and truncating when the precision/scale of the number is more than the required format.

Other comments on the data elements "strike price" and "strike price notation":

2.23 Option lockout period

Comments on the data element "option lockout period":

2.24–2.25 Option premium; option premium currency

Q9: With reference to data elements "option premium" and "option premium currency" (Sections 2.24 and 2.25), should an option premium payment date be added, to take into account that the option premium may sometimes be paid at the end of the transaction?

Yes, an option premium payment date should be added to data elements "option premium" and "option premium currency" as the option premium may sometimes be paid at the end of the transaction.

Other comments on the data elements "option premium" and "option premium currency":

2.26–2.27 CDS index attachment point; CDS index detachment point

Comments on the data elements "CDS index attachment point" and "CDS index detachment point":

Other comments:

DTCC commends CPMI IOSCO for its leadership and continued focus on global data harmonization initiatives in addition to critical derivatives data elements.

A globally consistent core set of data elements allows for a more complete and harmonized view of the OTC derivatives market in addition to facilitating efforts by regulators to share and aggregate data. Therefore, DTCC continues to encourage regulators to agree on a standard approach for reporting a core group of data elements in all relevant jurisdictions.

Guidance on data standards should be agreed upon and a governance framework established to facilitate management of this global data set. A key step is for policymakers to then ensure these efforts are adhered to and implemented globally.

DTCC recognizes the challenges in effectuating global data harmonization and stands ready to assist CPMI IOSCO in these efforts.