



**EACH response to the CPMI-IOSCO
consultative report
'Harmonisation of Key OTC Derivatives
Data Elements (other than UTI and UPI) -
first batch'**

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1. Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. EACH currently has 20 members from 16 different European countries and is registered in the European Union Transparency Register with number 36897011311-96.

EACH welcomes the opportunity to provide input to the CPMI-IOSCO consultative report 'Harmonisation of Key OTC Derivatives Data Elements (other than UTI and UPI) - first batch' and the work of the CPMI and IOSCO in promoting global harmonisation of regulatory reporting requirements.

Prior to responding to the detailed questions in the Consultative Report, EACH would like to make the important remark that although the Consultation Report targets OTC products, some jurisdictions, e.g. the European Union, have extended the scope of the G20 commitments on trade reporting to cover both OTC and exchange-traded derivatives ("ETD"). As Committee Members will be aware, there are significant differences between the two sets of products including, inter alia, trade-flow and processing which impact on trade reporting. For example, on a daily basis, ETD trades are netted at end of day into a single position, whereas, absent a specific compression cycle, OTC trades are held on a trade-by-trade basis throughout the life of the contract. It is therefore extremely important that regulators exercise extreme caution in extending any provisions designed for OTC contracts - i.e. those set out in this Consultative Report - to ETD. It is also worth noting that in certain areas of the Consultative Report, e.g. in Section 3.2.2 - Direction, direct reference is made to "futures" which is clearly outwith the scope of this document.

2. EACH responses to specific questions

Q1 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?

EACH believes that the concept of "effective date" is not properly defined and will vary between instruments. It is therefore recommended that CPMI-IOSCO seeks further information from industry participants in order to provide clarity.

(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?

Based on experience to date, a default time of 23:59:59 is more suitable as this clearly links to the business day on which an event occurs (00:00:00 is the next business day).

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

Based on the fact that many trade capture systems do not incorporate a timestamp, we would recommend Alternative 1. Additionally, EACH is concerned with proposed use of UTC rather than GMT which is more commonly used by the industry. This also can create additional issues as the time conversion to UTC may push events into the next business day leading to further complexity of data rationalisation.

Q2 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?

No comment.

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

EACH believes that Alternative 2 is simpler and, taken together with other data fields, will provide sufficient information on the clearing model and nature of participants.

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

Given on-going discussions on requirements and methodologies for indirect clearing, EACH does not believe that this distinction can properly be addressed by CPMI-IOSCO at this stage.

Q3 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):
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(a) Would the guidance be sufficiently clear in the case of original and cleared trades, taking different clearing models into consideration?

As noted above, the Buyer/Seller field when taken together with other data fields, will provide sufficient information on the clearing model and nature of participants.

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

No comment.

Q4 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.

No additional guidance is needed in this area.

(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?

There is no requirement for four FX notional amount elements and this should be aligned with the US approach where two notional amounts are reported.

(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?

No comment.

Q5 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?

No comment.

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

EACH recommends Alternative 2 which allows reporting of the current notional amount.

Q6 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?

EACH would like to note that although it welcomes the proposed use of ISO 4217, this standard is rapidly running out of data and needs extending to cover additional currencies.

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

No comment.

Q7 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.

EACH notes that this is one area where harmonisation of data values is essential as there is already a difference in approach between the US and EU. EACH's recommendation is to apply Alternative 1 which covers the replacement cost of the trade.

(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.

No comment.

Q8 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?

No comment

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

Data elements 8.04 and 8.05 need to be considered in tandem. CCPs use a mixture of Mark-to-market and Mark-to-model approaches and therefore the use of Alternative 1 in 8.04 and 8.05 is recommended.

Q9 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?

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

(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.

The advantages are well defined, especially that Alternative 1 is already in place in a number of jurisdictions. 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 more logical. The proposals cover many large product tranches, however we expect there will be a number of exotic derivatives which will pose a challenge in application.

In relation to Data element 3.2.1 Early termination timestamp, EACH would reiterate its comment in Q1(c) in relation to the use of UTC rather than GMT (the latter being current industry practice).

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