

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:

Financial products Markup Language (FpML) (www.fpml.org), through the FpML Standards Committee, would like to provide CPMI-IOSCO with comments and recommendations on the consultative report on “Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch” .

Regulatory Reporting Coverage in FpML

A variety of changes have been made to the FpML standard in recent years to allow for coverage of the reporting requirements in different jurisdictions. A core design principle has been to implement a robust technical framework that could be leveraged by global regulators as new regulations become available. To that effect we have tracked requirements that are specific to a particular reporting regime in a structure that accommodates the needs of multiple regulators. Over a period of time, FpML has been actively involved with regulatory bodies in Asia, the US and Europe in devising compliant solutions, in order to report the specific data fields for various regulatory regimes.

We finally note that the engagement with regulators in the US, Europe and Asia on various reporting requirements through the FpML Regulatory Reporting Working Group (FpML RPTWG) has been very beneficial and we welcome the ongoing dialogue with CPMI and IOSCO.

2.1 Reporting timestamp

Comments on the data element “reporting timestamp”:

Please clarify the scenario where multiple reports from a counterparty to a TR are combined into one report to the regulator. Should in this case the report use the time of the latest?

2.2 Execution timestamp

Comments on the data element "execution timestamp":

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?

For the avoidance of doubt, it would be beneficial to clarify that in the case where the transaction is an option on a derivative, the final settlement date is the settlement date of the option, not the underlying transaction.

For many derivatives, including swap-type products and options with multiple exercise dates, it is not industry practice to confirm the final settlement date, as this is either not known at the time the deal is struck, or could change during the life of the swap due to business day changes (e.g. new holidays). For this reason, FpML does not currently represent Final Settlement Date. We also note that no regulator currently requires this field. If this field will become a required field, CPMI-IOSCO should fully describe the rules for calculating and reporting this field, and be aware that its value may change during the life of the contract. A non-exclusive list of considerations that should be addressed include the treatment of: options with multiple possible exercise dates (e.g. American and Bermudan options), swaps which pay in advance or in arrears, swaps with settlement offsets/lags, and changes in business centers (holidays) that may affect the calculated final settlement date.

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?

1. Settlement currency of swaptions should not automatically be assumed to be the currency of the underlying swap.

Although in the majority of cases the settlement currency of a cash-settled swaption will be the currency of the underlying swap, when the underlying swap is a vanilla, single-currency swap, this is not always the case. For cash-settled swaptions, there may be rare exceptions where the settlement currency differs from the currency of the underlying swap, for example if the underlying swap is in a non-deliverable currency, or when the underlying swap is cross-currency. Because the settlement currency is a separate field from the notional currency of the underlying swap, FpML sees no benefit in asserting that this field must be the same as the currency of the underlying swap.

For swaptions that are physically-settled, there is no settlement currency and therefore the field should not be required for physical settlement.

Other comments on the data element “settlement currency”:

2. Comment on the use of ISO 4217 + CNH

We would like to comment on the use of currency codes specifically in the case of settlements, but also for reporting purposes more broadly.

Specifically in the case of settlements, a solution must be found for the settlement of offshore currencies. The approach we recommend is to use an additional field “Place of settlement” in addition to the settlement currency to allow for the distinction between offshore and onshore currencies. With this approach, ISO 4217 suffices for all settlements. This approach is in line with the approach currently used by market participants when settling transactions over the SWIFT network. An alternative, and in our view suboptimal approach in the case of settlements, is to add (non-ISO) currency codes for offshore currencies to the allowable currency values. In the latter case this should not be limited to CNH only. While CNH is the most prominent case, there are other offshore currencies and the proposed CPML-IOSCO solution should cover all.

For additional comments on the use of ISO 4217 outside of settlements, See page 15.

2.5 Confirmed

Comments on the data element “confirmed”:

The definition should be clarified to explain that reporting parties are giving information valid at that specific point in time (i.e. the status of the confirmation as of the point of reporting).

We note an error in the definition of YCNF which should be corrected. The consultation paper defines YCNF as unconfirmed. YCNF is in fact the ISO 20022 code for NonElectronicallyConfirmed.

2.6 Day count convention

Comments on the data element "day count convention":

In order to achieve the highest level of data quality and reporting consistency, CPMI-IOSCO must provide clear, precise and unambiguous definitions for all the codes it is prescribing. FpML sees a number of issues with the proposed day count convention codes.

- As mentioned above, there is no 1-to-1 mapping to established standards such as the FpML Day Count Fraction scheme that is widely used by the industry and which follows the ISDA documentation.
 - It is unclear where some of the definitions come from. We can infer the source of some of the codes but others are unclear e.g. IC30360ISDAor30360AmericanBasicRule.
 - Concatenated codes simply don't constitute definitions and are not a good basis for implementation.
- See also our general comment on the use of ISO 20022 codes.

The table listed in the Annex compares side-by-side the ISO 20022 day count basis codes vs the FpML day count fractions. We do note that the actual definitions are different. For example, the definition for ActualActualISDA (ISO) and ACT/ACT.ISDA (FpML) are not the same. It would be helpful for CPMI-IOSCO to confirm the mapping to FpML we have completed for the day count conventions as listed in the Annex.

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?

FpML supports the use of Alternative 2. We see no advantages in using Alternative 1. It provides an extensive list of overlapping options that are likely to degrade data quality. For example, the same payment frequency can be represented with 12 MNTH or 4 QURT or 2 MIAN or 1 YEAR. Alternative 2 provides fewer, more widely accepted codes that are closely aligned with the frequency period needed for confirming actual derivative contracts. There is still some possible overlap (e.g. 12 MNTH = 1 YEAR) but this is quite restricted and can be handled with a limited set of validation or conversion rules.) Alternative 2, in addition happens to be very close to the codes defined in FpML, which have been used successfully to confirm and report millions of transactions across all main asset classes. (FpML defines values (D, W, M, Y, T) through a generic period structure.)

- (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?

We would like to understand how CPMI-IOSCO intends to leverage the ISO 20022 InterestCalculation / PaymentFrequency codes should Alternative 2 be selected. The ISO 20022-defined list already contains all the values defined in Alternative 1.

- Is it the intention that the ISO 20022 standard be revised to only contain the subset of Alternative 2 fields?
- Is it the intention to use business validation rules? We recommend avoiding the use of business rules and rely on schema validation where possible.

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?

The language discusses investment management scenarios, but not other scenarios, such as prime brokerage. It would be beneficial to enumerate different scenarios and describe when the counterparty and the beneficiary would be the same and when they would be different.

This type of detail would be beneficial in the specification, rather than simply in a question.

We believe that developing and detailing the different scenarios as indicated above will help to sufficiently clarify the term “counterparty”.

- (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?

Yes, this is referred to as joint and several liability. Ideally, each of the several counterparties would be reported as a separate LEI or other counterparty identifier. In FpML we indicate that the jointly liable counterparties are part of a counterparty group, and provide an LEI for each member of the group.

- (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?

There should be a specification of how the natural person is to be identified. This could be jurisdiction specific.

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

2.13 Report-submitting entity

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

FpML believes the definition is sufficiently clear.

2.14 Broker of counterparty 1

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

CPMI-IOSCO needs to advise whether it is arranging broker, as opposed to executing or prime broker.

2.15 Central counterparty

Comments on the data element "central counterparty":

If the contract is cleared, it will be one of the counterparties to the transaction. Please clarify the information CPMI-IOSCO is looking for, e.g. is it for trades that aren't yet cleared but will be?

2.16 Clearing member

Comments on the data element "clearing member":

CPMI-IOSCO needs to further clarify the definition of clearing member. There are different clearing models (e.g. agency, clearing model, principal clearing model). The definition does not cover all the cases and should provide examples.

We generally support a clear definition of the roles for all parties involved in the transaction. Clearing member, counterparty, beneficiary, among others are key terms that need to be defined unambiguously.

2.17 Platform identifier

Comments on the data element "platform identifier":

Of particular concern are the proposed values when no trading facility is involved. Knowing in all cases (when traded off facility) whether or not the instrument is listed or not is an extremely onerous requirement. It assumes information at the time of reporting of all instruments that are listed globally, irrespective whether or not the counterparties to the trade have a connection to a particular platform.

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?

Yes, FpML believes that it is likely that different jurisdictions will have different definitions of affiliated entities. For this reason, it seems unlikely that it will be possible to meaningfully combine this field across multiple jurisdictions. FpML questions including the value of this field for global data aggregation without providing consistent definitions globally.

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)?

FpML believes the definition of the booking location is insufficiently clear. It seems that “booking location” may refer to the jurisdiction of formation of the legal entity into which the trade was booked. If that is the case, the definition should state so clearly. If, on the other hand, the location of the processing or trading is intended, this should be stated. FpML recommends replacing “Booking location” with a more clearly defined field, such as “country of incorporation of counterparty 1”. The phrase “location where profit and losses are allocated” in Q6 is not clear either. Is this the location for audited public reporting or for internal revenue attribution? How is this affected if P&L from branches or subsidiaries is consolidated in a parent organization?

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"?

CPMI- IOSCO should clarify whether this means:

- 1) The location of the salesperson or trader that actually executed the trade, or;
- 2) The location of the trading desk responsible for managing the risk of the trade once it is added to the portfolio.

In some cases, a sales person located at one office will execute a trade on behalf of a trader/trading desk at another location.

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?

The proposed format has more than adequate number of characters after the decimal (13). We believe that 7 or 8 decimals should be adequate. TRs currently are unlikely to provide this degree of precision. In fact, some TRs actively prohibit values with more than a certain number of decimals, typically in the range of 5 or 6). FpML is concerned that only 5 characters before the decimal may be too small for certain commodities, and perhaps several additional characters before the decimal might be provided. We question what the rationale is for the proposed format. Is this based on an analysis of current reporting data?

FpML believes that CPMI-IOSCO should define how data fields should be reduced to a specific number of decimals, for example for calculated data fields that repeat. Should these be truncated or rounded? If rounded, what rounding method should be used? Should this precision reduction be the responsibility of the TR or of the data submitter? (do we want to ask this? Better to have this done as late as possible in the chain ie by the TRs?

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

FpML also comments that the Format Details syntax is not precisely defined anywhere in the document, so the meaning of Num(18,13) in this context is not unambiguous. In the final recommendations this should be clearly documented, with a full syntax description and a number of valid and invalid examples for each format.

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?

There are indeed cases where option premium is paid at the end of the transaction. The best way to express this is to make the payment date explicit. FpML supports the addition of an option premium payment date. This date is explicitly specified throughout FX product models in FpML.

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:

** Feedback on the use of ISO 20022 codes

FpML recognizes the mandate to use ISO 20022 in certain jurisdictions with an area of applicability that is focused on the direct communication with regulators. The coverage of OTC derivatives in ISO 20022 is currently under development and one of the observations is that there is an attempt to establish new codes in ISO 20022 to reflect national regulations, rather than to leverage established codes used by the industry. Where there are established codes used by the industry, we urge CPMI-IOSCO to recommend the use of these established codes rather than introducing new ones. ISO 20022 can work with pre-existing external codes. The impact of reference data such as code lists on data quality cannot be underestimated.

In addition we want to ensure that new code lists, when defined have a proper set of definitions for each of the codes defined. We take as an example the day count fraction codes defined in ISO 20022. A code A004 with as value: Actual360 does not provide sufficient information to understand what this code means.

In the ISO 20022 portal it appears that it is possible to display the code descriptions online but not to access them as a document, which makes these descriptions difficult to use and evaluate. (See https://www.iso20022.org/standardsrepository/public/wqt/Description/mx/dico/codesets/_aZrHltp-Ed-ak6NoX_4Aeg_1988747412). We were able to extract the necessary information from the XML underlying page using technical means, but this mechanism is unwieldy and not available to all users.

We recommend that these definitions be published in a self-contained document that can be analyzed more easily and without any ambiguity as to the meaning of the codes prescribed by CPMI-IOSCO. See also our response to the Day count convention.

The FpML coding scheme on the other hand provides the necessary information to find the exact definition of this day count fraction.

Extract from the FpML dayCountFractionScheme:

- Code: ACT/360
- Source: FpML
- Description: Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (e) or Annex to the 2000 ISDA Definitions (June 2000 Version), Section 4.16. Day Count Fraction, paragraph (d).

** Following upon Q2: Outside of the pure settlement area, we believe that the ISO currency list is too restrictive and we ask CPMI-IOSCO to address this as part of their guidelines. Below we explain how FpML has addressed the issues of non ISO currencies. We encourage CPMI-IOSCO to adopt and recommend the FpML solution or a solution in line with the FpML one where CPMI-IOSCO would maintain or point to a clear source for the non-ISO currencies.

FpML has established a model that includes 3 lists of currencies:

- The default list refers to the standard ISO 4217 list of currencies published and maintained by ISO.
- A second, complementary list, maintained by FpML, contains non-ISO currencies such as offshore and historical currencies (e.g. CNH, Vatican Lira, Monegasque Franc).
- A third list is the union of ISO 4217 and non-ISO currency codes.

The segregation of currencies into separate, well-defined lists enables currency fields to be validated depending on the use case. For example, a particular currency field could prohibit CNH as a settlement currency but allow its use in other instances, depending on the list being used.

As mentioned above and in particular of importance outside of the settlements area, the additional currency lists published by FpML could be used as the source for non-ISO currency codes for the financial community. FpML has established a maintenance process that allows the list of non-ISO currencies to be updated rapidly and transparently, while maintaining consistency with the ISO 4217 list of currencies published and maintained by ISO. We would be happy to share any further information with CPMI-IOSCO.

More information on the (public) FpML currency coding schemes can be found at:
<http://www.fpml.org/docs/FpML-AWG-Expanding-the-Currency-Codes-v2016.pdf>

** Null (request for empty fields to be provided)

It is not clear whether this "Null" value is expected to be provided by reporting parties. In XML, the lack of data is typically indicated by either 1) the omission of the element that would hold the data, or 2) leaving the element empty, i.e. with no text content. (FpML generally does the first.) The value "NULL" is confusing in XML text fields and is not allowed in numerical value and data fields. For this reason we see no benefit in requiring data submitters to use non-standard ways to indicate that data is not present, and no possibility of their doing so for many data types. TRs can certainly supply the value "Null" in flat formats, but it is not clear how they would do so in an XML format.

It is unclear whether Null refers to a literal string value "Null" or an empty value. We recommend CPMI-IOSCO publish an example of how Null would look like in XML to illustrate the intended use. We recommend the omission of an element, like FpML prescribes, instead of use of an empty element or Null value.

FpML response – Appendix

This appendix complements the response submitted by Financial products Markup Language (FpML) to the CPMI-IOSCO consultative report on “Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch”.

Day count convention

The following table compares side-by-side the ISO 20022 day count basis codes vs the FpML day count fractions. We do note that the actual definitions are different, e.g. the definition for ActualActualISDA (ISO) and ACT/ACT.ISDA (FpML) are not the same.

ISO 20022 Interest Calculation / Day Count Basis	
CODE	DESCRIPTION
A001	IC30360ISDAor30360AmericanBasic Rule
A002	IC30365
A003	IC30Actual
A004	Actual360
A005	Actual365Fixed

FpML Day Count Fraction Scheme http://www.fpml.org/coding-scheme/day-count-fraction		
FpML Code	SOURCE	DESCRIPTION
30E/360.ISDA	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (h). Note the algorithm for this day count fraction under the 2006 ISDA Definitions is designed to yield the same results in practice as the version of the 30E/360 day count fraction defined in the 2000 ISDA Definitions. See Introduction to the 2006 ISDA Definitions for further information relating to this change.
ACT/360	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (e) or Annex to the 2000 ISDA Definitions (June 2000 Version), Section 4.16. Day Count Fraction, paragraph (d).
ACT/365.FIXED	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (d) or Annex to the 2000 ISDA Definitions (June 2000 Version), Section

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ISO 20022 Interest Calculation / Day Count Basis	
A006	ActualActualICMA
A007	IC30E360orEuroBondBasismodel1
A008	ActualActualISDA
A009	Actual365LorActuActubasisRule
A010	ActualActualAFB
A011	IC30360ICMAor30360basicrule
A012	IC30E2360orEurobondbasismodel2
A013	IC30E3360orEurobondbasismodel3
A014	Actual365NL
NARR	Narrative
Null	Null in the case there is no interest to be paid.

FpML Day Count Fraction Scheme http://www.fpml.org/coding-scheme/day-count-fraction		
		4.16. Day Count Fraction, paragraph (c).
ACT/ACT.ICMA	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (c). This day count fraction code is applicable for transactions booked under the 2006 ISDA Definitions. Transactions under the 2000 ISDA Definitions should use the ACT/ACT.ISMA code instead.
ACT/ACT.ISDA	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (b) or Annex to the 2000 ISDA Definitions (June 2000 Version), Section 4.16. Day Count Fraction, paragraph (b). Note that going from FpML 2.0 Recommendation to the FpML 3.0 Trial Recommendation the code in FpML 2.0 'ACT/365.ISDA' became 'ACT/ACT.ISDA'.
ACT/365L	FpML	Per 2006 ISDA Definitions, Section 4.16. Day Count Fraction, paragraph (i).
ACT/ACT.AFB	FpML	The Fixed/Floating Amount will be calculated in accordance with the "BASE EXACT/EXACT" day count fraction, as defined in the "Definitions Communes plusieurs Additifs Techniques" published by the Association Francaise des Banques in September 1994.

<http://www.fpml.org/coding-scheme/day-count-fraction>