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

Respondent name: German Banking Industry Committee

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General comments on the report:

The German Banking Industry Committee (GBIC, die Deutsche Kreditwirtschaft) is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the Savings Banks Finance Group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

GBIC welcomes the opportunity to comment on this report.

Harmonisation on a global level is challenging but extremely important. The set of data elements required in the relevant local jurisdictions may differ but harmonization of the existing data elements supports proper aggregation and matching across TRs.

However, we disagree with the approach to introduce further new data fields that are actually not required in any jurisdiction. The inclusion of many new fields creates new reporting requirements, challenges, plus implementing and running costs, for our members and TRs.

2.1 Reporting timestamp

Comments on the data element “reporting timestamp”:

GBIC prefers an approach that is in line with current market practice, i. e. the reporting timestamp is provided/captured by the TR.

2.2 Execution timestamp

Comments on the data element "execution timestamp":

We understand that "execution timestamp" should only apply to the original trade execution. Therefore, the "execution timestamp" should remain unchanged throughout the life of the trade. Subsequent lifecycle events should not cause the "execution timestamp" to be overwritten.
Execution timestamps should not be a field which is matched between the trade's counterparties, since it is not an agreed field. If any pairing does occur, it should only apply to day and not time.
Furthermore, the definition proposed is unclear. Its second sentence should be amended to "For centrally cleared transactions, the execution timestamp captures when the cleared transaction was accepted for clearing," similar to other jurisdictions. Please note that with this definition there would be no need for a separate data field for "clearing acceptance."

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?

We understand that the content of the field "final settlement date" corresponds to the date of settlement of the underlying. It is not clear what CPMI-IOSCO ultimately means by "final settlement date." In case the exposure to failed settlement of cash would be required, this is not part of the trade reporting process.

With regard to the definition of "final settlement date", there is currently no reporting concept in the industry and the value is not a term specified in the confirmation. We strongly believe that in order to meet the G20 requirements and regulators' demands firms should report only contractual data elements. In some cases there may not be any settlement, or multiple settlements in both directions which are netted. Front Office and Back Office systems in the IT market are not designed to adapt their database to the actual payment date. Such date could be delayed for various reasons, e.g. differences in calculation, default in payment, wrong settlement instructions. So any investigation and resolution process is handled in a specialized environment, e.g. account reconciliation tools. The reporting of such data field would impose a new and challenging burden on the industry that we do not believe is justified or proportionate. Any settlement risks are already monitored and reflected in limit systems as per existing regulation (at least in the EU).

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?

No, this definition is not sufficiently clear because cash settlement of swaptions is also possible (e.g. in Korean won which is settled in USD).

The list of allowable values should not be based solely on ISO but needs to include all offshore currencies rather than only CNH.

Given that a swaption's settlement currency could also refer to the currency of the option component, it has to be clarified that the settlement currency of swaptions is the currency of the underlying swap.

Other comments on the data element "settlement currency":

2.5 Confirmed

Comments on the data element "confirmed":

GBIC recommends ensuring that CPMI/IOSCO's proposed allowable values are consistent with ISO 20022.

2.6 Day count convention

Comments on the data element “day count convention”:

The field "day count convention" does not appear to follow the industry standard for OTC derivatives. Since this requires mapping contractual terms to a reportable value, we believe this will generate further matching issues. We suggest following the ISDA definitions.

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?

Regarding harmonization, alternatives 1 and 2 appear to be incomplete - if they are intended to reflect a complete list versus a short list.

(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?

Neither alternative 1 nor alternative 2 appears to be appropriate for its purpose. We suggest following the ISDA definitions, as these are used for the vast majority of OTC derivative contracts.

With regard to the payment frequency period multiplier: in order to avoid matching issues stemming from two reporting entities delivering different data elements for the agreed swap, examples and clear guidelines should be provided, e.g. a quarterly payment can be reflected as either monthly in combination with multiplier 3 or simply as a quarterly payment with multiplier 1, both correct but not matching.

Further clarity is required on how to reflect special cases in the reporting fields where, for example, there is monthly interest calculation but quarterly payment (based on which cumulative method).

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

How should we reflect special cases in the reporting fields where, for example, there is monthly interest calculation but quarterly payment (e.g. cumulative or any other special rules) ?

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?

CPMI proposes that the 20-character LEI be provided in cases where counterparty 2 is a legal entity as defined by LEI ROC. If counterparty 2 is not a legal entity as defined by LEI ROC (data element 2.12 "Counterparty 2 type" is populated with "N") so there is no LEI, CPMI-IOSCO proposes that 2.11 "Counterparty 2" be populated with allowable value "null." For these cases, we prefer that some counterparty identifier, such as counterparty 2 name and/or internal identifier, be provided instead of simply "null".

(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?

There are few cases where multiple counterparties are not eligible to obtain a collective LEI. In principle, such cases could be reported by using either an internal identifier of the reporting entity or a list of LEIs.

(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?

Executing an OTC derivative is not usual for natural persons. Given the small number, trades reported with value = n should not be an issue. The reporting entity could use an internal identifier.

Regarding the value for counterparty type 2, we believe that a field for natural persons should be sufficient as otherwise the reporting entity would have reported the relevant LEI in the "counterparty 2" field. The legal entity type of counterparties in firms currently does not fit with the LEI ROC, so we would have to establish new functionalities. We believe this is redundant because if a LEI is not reported an analysis of each party without a LEI would need to be conducted. GBIC believes that it is not the duty of its members to police their counterparty's obligation to obtain an LEI.

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":

Regarding the definition, this is OK if "…the identifier of that entity should be reported here." actually means "the identifier of the submitting entity should be reported here."

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":

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?

We believe that regulators should harmonise their definition of the term "inter-affiliate".

Regarding the definition of "report-submitting entity", this is OK if "…the identifier of that entity should be reported here." actually means "the identifier of the submitting entity should be reported here."

Regarding the definition of "platform identifier", we believe that only execution platforms are relevant here rather than a trade reporting facility. The latter should be deleted from the definition.

We believe that global harmonization is needed on the use of platform identifiers, i.e. if the LEI or the more granular MIC is to be reported.

We believe that it is too much of a burden on reporting entities to determine whether a product is offered on any platform globally and thus to be able to report the platform identifier for an OTC contract which is traded outside a trading venue.

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, this definition is not clear. The term "booking" could be interpreted in different ways. Clarity is required on whether the booking location is meant to be the domicile of counterparty 1 or its foreign branch or, alternatively whether this means the location of booking in the general ledger, which we prefer.

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"?

We believe this definition is clear if sales staff responsible for executing and booking to a trader's position/portfolio are not considered to be (part of) the trading desk.

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?

We believe that only 5 characters before the decimal point will not be sufficient in all cases.

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”:

Regarding the option lockout period, the definition and the term seem to be contradictory.

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?

Regarding the option premium (amount), the value "zero" should not be excluded as some options may not have a premium. For example, complex options could be executed and therefore reported as one trade but are designed so that the overall premium amount equals the sum of zero. Consequently, the rule “null if it is not an option” should be amended.

It is not clear to us how to report option premiums which are paid on, for example, an annual basis until maturity of the option.

Regarding the option premium currency, it is not clear if the currency means the contractual currency or the settlement currency. This is particularly important for trades agreed in a non-deliverable currency (non-ISO). There may be scenarios where the FX rate for conversion of the option premium amount has not yet been determined at the time of reporting.

Regarding the option lockout period, the definition and the term seem to be contradictory.

The term "first exercise date" would be closer to the definition that should refer to the first date during the exercise period.

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: