



Comments

IOSCO / CPMI Consultative Report – Harmonisation of the Unique Product Identifier

Register of Interest Representatives
Identification number in the register: 52646912360-95

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Berlin, 24 February 2016

The **German Banking Industry Committee** 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.

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Comments

The German Banking Industry Committee (GBIC) expressly welcomes the global (jurisdiction-agnostic) approach of the system proposed in the consultative report. The precise classification hierarchy and open-source concept support, in our view, as widespread proliferation and rapid introduction as possible of a Unique Product Identifier (UPI). An UPI based on the proposed principles should significantly mitigate the data aggregation problem that still exists.

We would appreciate it if a code proposal were made public as soon as possible, although we are aware of the difficult and time-consuming consultations and assessments involved.

The definition of a code must include all users, so that strong, centralised coordination is needed. Leaving the definition to one particular group of users (e.g. the sell side of OTC derivatives) would prevent the global and universal acceptance that we believe is required.

In addition to a global definition, implementation should also be global.

Question 1: Are the above three OTC derivative instrument types sufficient to describe (in combination) all OTC derivatives? Which OTC derivatives would fall outside this approach?

We generally agree with CPMI-IOSCO's definitions of the three basic derivative instrument types, namely, forwards, swaps and options.

We would like to add that the UPI classification system should be future-proofed to capture products which may not currently exist. The product identifier should not only be able to accommodate a broader range of financial products, but should also be able to accommodate changes to regulatory or industry identification requirements for future uses, such as liquidity determination and contract level identification.

The inclusion of further products in the system should follow an agreed governance process.

In addition, the general restriction to OTC derivatives is not helpful in our view; all derivatives should be included. We generally see a need to also include other product classes (securities, FX) in a universal UPI system.

Question 2: Is it valid to assume that a combination of data elements of the instrument and data elements of the underlier is sufficient to define a product? If not, please explain.

We see advantages and disadvantages in including an underlier in the UPI. Not including underlier information could ensure more rapid proliferation and acceptance. At the same time, certain underliers are so minimally standardised that their inclusion could lead to extensive fragmentation at a very early stage. On the other hand, other products (e.g. stock options) are standardised to such an extent and traded in sufficiently large numbers that inclusion of the underlier should not create significant definitional problems and will actually enable supervisors and the public to make sensible assessments.

Comments

Question 3: Is it valid to assume that the combination/set of data elements in the UPI classification system may differ across asset classes? If not, please explain and state how a uniform set of data elements could be comprehensively applied across asset classes.

Yes.

Question 4: Do you agree with this approach to the UPI's treatment of package trades? If not, please explain and suggest alternatives.

Question 5: Are the principles and high-level specifications listed and described above comprehensive in representing the characteristics of a classification system? If not, are there other principles and high-level specifications that should be considered? Please list and explain.

The German Banking Industry Committee (GBIC) generally approves the principles and high-level specifications. In addition, we see a UPI system as having advantages not only in the area of reporting, but also in the area of risk management and other operational activities such as defining target markets or devising product-based information documents.

Furthermore, we would recommend including "Reasonable Costs" as an additional principle. We believe that a reasonable cost structure should be a key consideration and a principle for the UPI. The cost of product identifier issuance, access, processing, and maintenance should reflect the cost of operation and be kept at a reasonable level in order to make use of UPIs accessible to all market participants. This includes redistribution of the identifier and the underlying metadata, which should be unrestricted by licensing requirements.

A party who has an obligation to report and who has traded a product which it believes to be new will need to determine whether a UPI already exists. The cost of determining (with certainty) whether an identifier already exists for a particular product, as well as the cost of consuming the UPI, should be negligible.

If a UPI does not exist, costs should not be an entry barrier to generating or obtaining a new UPI. The process cannot be complex or lengthy in light of the short time window for reporting for certain regulations. Costs and complexity should not deter parties from trading particular products, nor discourage parties from going through the process of generating a UPI.

A central reference source for product identifiers would provide long-term benefits, help avoid duplication of identifiers, expedite searches for existing UPIs, and maintain data integrity. However, the total cost of building and maintaining such a reference source should be taken into consideration.

Question 6: Are the principles and high-level specifications listed and described above accurate and precise in their definitions? If not, are there changes you would suggest? Please list and explain.

The "Persistence" principle should incorporate additional wording to the effect that a code cannot be withdrawn. A future-proofed system not only requires scope for extension to accommodate new products, but should also deliver security for already assigned product codes. Not only should an already assigned code not be allowed to be used for other products, it should also apply 'for ever', i.e. there should be no need to assign a new code to an existing product. In addition, we recommend that the converse be added

Comments

to the “Persistence” principle. Specifically, a UPI should not be reassigned to another product after the original assignment has taken place.

Question 7: Could some of these principles and high-level specifications pose implementation challenges? Which ones and why?

We should like to point out in this context that both a global and prompt definition of a UPI code as well as its swift implementation are required.

Furthermore, the aspect of public dissemination should take data privacy and confidentiality concerns into account. The need for public transparency must be balanced against the regulatory obligation to protect the liquidity of derivatives markets by safeguarding anonymity.

Trade data and identity confidentiality issues should be considered by CPMI-IOSCO in determining the level of granularity for the UPI product classification system if public dissemination is envisioned. Certain derivatives products are thinly traded or traded by a limited number of market participants. Disclosure of certain trade details, such as delivery or pricing points for commodities, can lead to the disclosure of counterparty identities or reveal trading strategies. This can impair the ability of market participants to hedge on a timely basis, and may drive up pricing, which in turn limits market participants’ access to derivatives transactions at fair and competitive prices. A more granular product classification that is used for public dissemination could negatively impact the breadth of derivatives markets.

To avoid these implications, a UPI should provide a level of granularity which would take into consideration the anonymity issues and therefore be suitable for both regulatory and public dissemination purposes.

Question 8: Providers of product classification systems are encouraged to provide a detailed response to Section 3 to set out how their prospective UPI solutions meet, or could be revised to meet, each of these principles and high-level business specifications. If the UPI solution does not meet a particular principle or high-level business specification, please describe planned or potential amendments that could satisfy it.

Question 9: As discussed in Section 3.5, should a classification system allow one or more of its data elements to take the value “Other” in order to incorporate new and/or highly bespoke products that do not yet have a more precise definition within the classification system? Why or why not? If not, how would the bespoke/non-standard products be treated within the classification system? What should be the criteria and processes for moving one or more data elements from “Other” to a more specific bucket? Should the volume of transactions that can be reported using these “Other” values be capped in order to maintain the precision of the classification system? If so, what would an appropriate cap be?

While we believe that a classification system should allow the value “Other”, the value “Other” as metadata for a product identifier is questionable.

Comments

A classification system should allow the value “Other” for the following reasons:

- It may not be possible to provide a UPI classification for every derivative instrument type that exists. Some products are simply not standardised enough to warrant a stand-alone classification.
- Availability of “Other” would help achieve the optimal level of granularity the Harmonisation Group provisionally believes is ideal (Section 4) by keeping to a minimum the number of product groups that contain only a single or a limited number of transactions. Secondly, it may not be practical from an industry ‘cost and build’ perspective to create classifications for products which may be more thinly traded.
- Having an “Other” bucket allows users to classify products which do not fit precisely into other classification values; otherwise firms may categorize products into a bucket which is not entirely accurate because an “Other” bucket is not available.

The treatment, criteria, and process for the “Other” bucket should be part of the governance oversight for the UPI. We recommend a governance process for the global UPI which will make it possible for the product identifier to evolve in line with market needs and undergo more major revision updates, as needed.

Question 10: The results from the study presented in Annex 4 suggest that data elements that describe the instrument together with data elements that describe and identify the underlier may provide an optimal level of granularity for product classification. For informational purposes, beyond the use of a derivatives product classification system for the global aggregation of data reported to trade repositories, are you aware of product classifications for other purposes where this level of granularity is applicable? For example, what level of granularity is used for aggregating transactions to calculate a position, or to determine various risk exposures to a particular product? What level of granularity is used to aggregate transactions for the purposes of compression or netting operations?

Question 11: Do the options presented above appear operationally feasible? If not, please explain why.

Question 12: What are the pros and cons that you see in each considered level of granularity (one with an identifier for the underlier, one without an identifier for the underlier)?

Question 13: A classification system that includes identifiers for underliers in all asset classes would require identifiers that are open-source and freely available to all users with open redistribution rights. Looking at the example of classification systems provided in this section and in Annex 5, do such identifiers exist for all asset classes? If not, please specify where you foresee implementation challenges in this regard and any suggested solutions.

Question 14: For the identifiers in each asset class, are there corresponding reference data that are open-source and freely available to all users with open redistribution rights?

Question 15: For a classification system that does not include an identifier for underliers in all asset classes, what classification systems are available that are open-source and freely available to all users with open redistribution rights? What are the data elements included in these systems?

Question 16: Based on the examples provided in this section and in Annex 5, do you have comments on how the allowable values would be technically managed or/and how they are technically managed in the case of existing classification system solutions?