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

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General comments on the report

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the Consultative Report on the Harmonisation of Critical OTC Data Elements (other than UTI and UPI) – Third Batch, issued by CPMI and IOSCO on 27 June 2017. GFXD and its members are very supportive of the work being performed by CPMI-IOSCO under their harmonisation programme and have submitted responses to all previous consultations: on the Unique Transaction Identifier, the first and second consultations on the Unique Product Identifier and the consultation on the first and second batches of key data elements. The responses are all available at http://www.gfma.org/initiatives/Foreign-Exchange-(FX)/Foreign-Exchange-(FX)/. GFXD members are committed to implementing the CPMI-IOSCO Guidance as it is adopted by regional regulators.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 25 global foreign exchange (FX) market participants, collectively representing over 80% of the FX inter-dealer market (according to Euromoney league tables). Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

The FX market is the world's largest financial market. Effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for globally co-ordinated regulation which we believe will be of benefit to both regulators and market participants alike.
The global FX market presents some unique challenges for trade reporting when compared with other asset classes. FX forms the basis of the global payments system and as such both the number of market participants and the volume of transactions are high. Notional turnover, per the last BIS report, is US$5.1 trillion/day (http://www.bis.org/publ/rpfx16.htm).

The high number and diversity within the participants of the global FX market presents many practical challenges in ensuring that those that are required to report actually can do so. As the FX market is global in nature, the reporting of a transaction will often be required to multiple jurisdictions, and any variation in the trade reporting requirements will be required to be adopted by either one, or both, parties to the transaction usually resulting in increased costs and increased operational risks.

The GFXD has consistently promoted and supported efforts to align global trade reporting standards as we believe that consistent and explicitly defined trade reporting requirements offer regulators the best opportunity to oversee trading practices and market transparency.

The GFXD welcomes the opportunity to set out our views in response to the Consultative Report. Our key points can be summarised as follows:

- We support the aim of CPMI-IOSCO to globally harmonise data elements, in their definitions, formats and allowable values. Explicitly defined data elements will improve data quality by preventing discrepancies between reporting parties and will allow the data to be more easily aggregated for regulatory purposes.
- The GFXD strongly advises that only ISO 4217 currencies are permitted for data fields involving currencies. This would ensure standardisation across the industry and prevent potential mismatches between counterparties reporting onshore and offshore values for the same trade. Offshore values should always be mapped to their onshore equivalent.
- FX transactions involve an exchange of two currencies. This must be reflected in the notional and price fields that are applicable to FX transaction. For instance, there should be two notional amounts which should be reported, and fields such as 'Strike Price Currency' require two currencies.
- There should be the facility to report a negative value in the 'Option Premium' field.
- The GFXD agrees with the use of "Prior UTI" in one-to-one and one-to-many events. However, once these events are combined with a many-to-one or -many-to-many event, we suggest that this field is not required, or a different event ID, such as "Compression ID" is used.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

The GFXD has no comments in relation to this question.

2.2 Collateral portfolio code

Q1: With reference to the alternatives proposed to capture information on portfolio code(s) (Section 2.2):

(a) In your view, how prevalent is the situation in which different transactions concluded under the same Master Agreement are associated with different CSAs (for initial margin posted, initial margin received and variation margin)?

The GFXD has no comments in relation to this question.

(b) The definition proposed in Alternative 1 is based on the assumption that, in the event of default, the entirety of the collateral provided under the given Master Agreement would be used to cover the loss of the non-defaulting counterparty, whether or not separate CSAs (for initial margin posted, initial margin received and variation margin) might be linked to that Master Agreement and whether or not all the transactions concluded under that Master Agreement would be associated with each of these CSAs. Is this assumption correct? If not, please clarify how the respective obligations would be resolved in the case of default. Please provide examples.

The GFXD has no comments in relation to this question.

(c) Are the differences in authorities' use of the two alternatives clearly illustrated in Table 2?

The GFXD has no comments in relation to this question.

(d) Which of the proposed harmonisation alternatives should be supported and why?

The GFXD has no comments in relation to this question.

Other comments on the data element "Collateral portfolio code":

The GFXD has no comments in relation to this question.

2.3 Portfolio containing non-reportable component

Comments on the data element "Portfolio containing non-reportable component":

The GFXD has no comments in relation to this question.

2.4–2.28 Data elements related to margins

Q2: The purpose of the data element "Initial margin settlement timing" (Section 2.10) is to allow authorities to better understand the difference between "Initial margin required to be posted by the reporting counterparty" (Section 2.17) and the "Initial margin posted by the reporting counterparty" (Section 2.5) as this difference may be due to the timing of when the required margin is determined and when the margin is posted. In the absence of information on the margin settlement timing, the difference in the margin required and margin posted amounts could be interpreted as over- or under-collateralisation. Information on the settlement timing of margin collected would serve the same purpose for global aggregation of initial margin collected (Sections 2.8 and 2.19).

(a) Are there challenges linked to the data element "Initial margin settlement timing" as defined above? Is there an alternative, more effective, way to represent this information, such as the date on which the initial margin posted (or collected) has been settled?

The GFXD has no comments in relation to this question.

(b) How prevalent is the existence of different settlement timings (T+0, T+1, T+2, T+3) within a given jurisdiction? Would the settlement timing for the initial margin posted different from the one for initial margins collected?

The GFXD has no comments in relation to this question.

Other comments on the data elements related to margins:

The GFXD has no comments in relation to this question.

2.29 Indicator of intraday variation margin calls

Comments on the data element "Indicator of intraday variation margin calls":

The GFXD has no comments in relation to this question.

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

The GFXD has no comments in relation to this question.

2.31–2.35 Data elements related to counterparty rating trigger

Q3: With reference to the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.34):

(a) For each alternative of the data element "Counterparty rating trigger indicator", do definitions and allowable values accurately reflect provisions contained in collateral agreements or master agreements covering OTC derivative transactions to protect parties from counterpart credit deterioration? How prevalent currently are counterparty collateral rating triggers or comparable automatic-termination provisions in collateral agreements or master agreements? How, if at all, have recent changes to market practices affected the prevalence or the form of counterparty collateral rating triggers or comparable automatic termination provisions?

The GFXD has no comments in relation to this question.

(b) Are the advantages and disadvantages of the proposed harmonisation alternatives of the data element "Counterparty rating trigger indicator" appropriately defined? If not, which aspects should be revised and how? Which of the proposed harmonisation alternatives should be supported and why?

The GFXD has no comments in relation to this question.

Q4: With reference to the alternatives proposed for the data element "Counterparty rating threshold" (Section 2.32):

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

The GFXD has no comments in relation to this question.

(b) Which of the proposed harmonisation alternatives should be supported and why?

The GFXD has no comments in relation to this question.

Q5: The definition of the data element "Incremental collateral required" (Section 2.33) relies on the assumption that the effects of multiple-notch downgrades are roughly linear. Are there instances in which the effects increase more than linearly with the number of notches in a hypothetical downgrade? If so, how could multiple scenarios be encompassed in the definition?

The GFXD has no comments in relation to this question.

Other comments on the data elements “Counterparty rating trigger indicator”, “Counterparty rating threshold”, “Incremental collateral required”, “Threshold rating for automatic termination provision” and “Closeout payment for automatic termination provisions” (Sections 2.31–2.35):

The GFXD has no comments in relation to this question.

2.36 Clearing obligation in the jurisdiction of the reporting counterparty

Comments on the data element “Clearing obligation in the jurisdiction of the reporting counterparty”:

The GFXD considers that this data element can be inferred from existing data elements, and is therefore unnecessary.

2.37–2.41 Data elements related to "Price"

Q6: With reference to the data element "Price" (Section 2.37), are there OTC derivative transactions products where the price or a concept of price is not captured under the "Price" data element or any other data element including "Fixed rate", "Spread", "Strike price", "Option premium" and "Other payment type (upfront payment)"? If so, please provide detailed examples of those products. Would the industry benefit from additional guidance for the "price" data element?

This field is not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

Q7: With reference to the data element "Price notation" (Section 2.40), is it clear and unambiguous which price notation (amount or percentage) should be applicable to each price? If not, which ones? Are there additional price notations that should be allowed? If so, which ones? Would the industry rather benefit from additional guidance for the "price notation" data element?

This field is not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

Q8: With reference to the data element "Price unit of measure" (Section 2.41):

(a) Can commodity derivatives be negotiated in different unit of measures for the price and quantity? If so, would industry support two separate data elements for the (1) Price unit of measure and (2) Quantity unit of measure?

This field is not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

(b) The list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.

(i) Are the values useful for reporting the Quantity Unit of Measure and the Price Unity of Measure?
(ii) If not, which ones are less useful and why?
(iii) Are there other values that should be added? Which ones, and why?
(iv) Are there duplicates or similar values that should be removed?

This field is not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

Other comments on the data element "Price", "Price schedules", "Price currency", "Price notation" and "Price unit of measure":

These field are not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

2.42–2.50 Data elements related to "Fixed rate", "Strike price" and "Option premium"

Q9: With reference to the data element "Spread notation" (Section 2.45), is it clear and unambiguous which notation (amount or percentage) should be applicable to each spread? If not, which ones? Are there additional spread notations that should be allowed? If so, which ones? Would the industry benefit from additional guidance for the "spread notation" data element?

This field is not applicable to FX transactions and the GFXD therefore has no comments in relation to this question.

Other comments on the data element "Fixed rate", "Spread", "Spread currency", "Spread notation", "Strike price", "Strike price currency", "Strike price schedules", "Option premium", "Option premium payment date":

> 2.47 Strike Price Currency
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> As acknowledged in data element 2.46, the strike price of FX options is expressed as an exchange rate. Therefore, the 'Strike Price Currency' field needs to be able to accommodate two currencies for FX trades. We suggest that an approach similar to field 2.52 'Exchange Rate Basis' is used.
> As noted in our response to the CPMI-IOSCO consultation on the second batch of key data elements, the GFXD strongly advises that only ISO 4217 currencies are permitted for data fields involving currencies, such as "Strike Price Currency". The ISO 4217 currency format provides a defined list of allowable values which would ensure standardisation across the industry and prevent potential mismatches between counterparties reporting onshore and offshore values for the same trade. Offshore values should always be mapped to their onshore equivalent, for example CNH to CNY, as is currently the practice in major jurisdictions.
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> 2.49 Option Premium
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> As noted in our response to the CPMI-IOSCO consultation on the second batch of key data elements, the GFXD disagrees with the proposed definition and allowable values of "Option premium", which currently refers to "the amount of money paid by an option buyer to the seller of an option". In some cases, the cash flow may be in the other direction (i.e. a "negative premium"), and this field will therefore have to be redefined to allow for negative values. Additionally, there may sometimes be no premium paid, in which case zero must be a permitted value.

2.51–2.52 Data elements related to "Exchange rate"

Comments on the data element "Exchange rate" and "Exchange rate basis":

> 2.52 Exchange Rate Basis
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> The GFXD strongly advises that only ISO 4217 currencies are permitted for data fields involving currencies, such as "Exchange Rate Basis". The ISO 4217 currency format provides a defined list of allowable values which would ensure standardisation across the industry and prevent potential mismatches between counterparties reporting onshore and offshore values for the same trade. Offshore values should always be mapped to their onshore equivalent, for example CNH to CNY, as is currently the practice in major jurisdictions.

2.53–2.54 Notional amount and Notional amount schedules

Q10: With reference to the data element "Notional amount" (Section 2.53), are there particular cases where the notional amount may not always be known when a new transaction is reported and may be updated later? If so, which ones?

The GFXD has no comments in response to this question.

Other comments on the data element “Notional amount” and “Notional amount schedules”:

2.53 Notional Amount

FX transactions involve an exchange of two currencies. There are therefore two notional amounts which should be reported. We suggest that the field ‘Notional Amount’ is repeated in the case of FX transaction. If this is not the case, recipients of the data will not be able to ascertain which notional has been reported in order to calculate the second notional from the exchange rate of strike price reported.

2.55–2.57 Data elements related to "Total notional quantity"

Comments on the data element "Notional quantity schedules", "Total notional quantity" and "Quantity unit of measure":

2.57 Quantity of Unit of Measure This field is not applicable to FX transactions. However, we note that one of the allowable values as per Annex 1 Table 1 is 'Amount of Currency'. Since field 2.57 is related to fields 2.55 and 2.56, which are applicable to "OTC derivatives transactions negotiated in non-monetary amounts", the inclusion of a currency value is not appropriate here and should be removed.

2.58–2.63 Data elements related to "Other payments"

Comments on the data elements "Other payment amount", "Other payment type", "Other payment currency", "Other payment date", "Other payment payer", "Other payment receiver":

2.60 Other Payment Currency The GFXD strongly advises that only ISO 4217 currencies are permitted for data fields involving currencies, such as "Other Payment Currency". The ISO 4217 currency format provides a defined list of allowable values which would ensure standardisation across the industry and prevent potential mismatches between counterparties reporting onshore and offshore values for the same trade. Offshore values should always be mapped to their onshore equivalent, for example CNH to CNY, as is currently the practice in major jurisdictions.

2.64–2.71 Data elements related to "Packages"

Q11: With reference to the data element "Package trade price" (Section 2.66), could it be agreed that two possible situations may arise: (i) a package price does exist because all the transactions that represent individual components of the package are priced jointly, or (ii) a package price is not available because all the transactions that represent individual components of the package are priced individually? Is more clarity needed regarding the reporting of "Package trade price" and prices of individual components?

The GFXD agrees with the analysis.

Other comments on the data elements "Package ID", "Package trade price", "Package containing non-reportable components", "Package trade price currency", "Package trade price notation", "Package trade spread", "Package trade spread currency" and "Package trade spread notation":

2.66 Package Trade Prince

The GFXD agrees with the proposal, and in particular the understanding that not all package are reported with a single package price.

2.67 Package Trade Price Currency

The GFXD strongly advises that only ISO 4217 currencies are permitted for data fields involving currencies, such as "Package Trade Price Currency". The ISO 4217 currency format provides a defined list of allowable values which would ensure standardisation across the industry and prevent potential mismatches between counterparties reporting onshore and offshore values for the same trade. Offshore values should always be mapped to their onshore equivalent, for example CNH to CNY, as is currently the practice in major jurisdictions.

2.72 Prior UTI

Q12: With reference to the data element "Prior UTI" (Section 2.74), how is "Prior UT"I represented when clearing and allocation happen at the same point in time? And how is "Prior UTI" represented when clearing and compression happen at the same point in time, as a single event? Do such cases of clearing and compression and clearing and allocation as a single event happen frequently?

The GFXD agrees with the use of “Prior UTI” in one-to-one and one-to-many events. However, once these events are combined with a many-to-one or -many-to-many event, the “Prior UTI” field becomes difficult to use from a practical perspective, as the number of Prior UTIs can be very large in some cases. In these cases, we suggest that this field is not required, or a different event ID, such as “Compression ID” is used.

Other comments on the data element “Prior UTI”:

The GFXD has no comments in relation to this question.

2.73–2.77 Data elements related to “Custom baskets”

Q13: With reference to the data element “Basket constituents unit of measure” (Section 2.74) the list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022’s Unit Of Measure Code and four additional values.

(a) Are the values useful for reporting the “Basket constituents unit of measure”? If not, which ones are less useful and why?

The GFXD has no comments in relation to this question.

(b) Are there other values that should be added? Which ones, and why?

The GFXD has no comments in relation to this question.

Q14: With reference to the data element "Custom basket code" (section 2.75)

(a) would it be preferable to separate the information on the LEI of the basket issuer and the unique alphanumeric code assigned by such issuer to the custom basket? If so, please explain why this would be preferable for global aggregation.

The GFXD has no comments in relation to this question.

(b) are there types of custom basket for which the "issuer of the custom basket" is not clear? If so, please provide detailed examples of those custom baskets. Would the industry benefit from additional guidance for the term "issuer" in the "Custom basket code" data element?

The GFXD has no comments in relation to this question.

(c) are 52 alphanumeric characters after the LEI of the basket issuer enough?

The GFXD has no comments in relation to this question.

Other comments on the data elements related to custom baskets:

The GFXD has no comments in relation to this question.

Other comments

We appreciate the opportunity to share our views on this Consultative Report issued by the CPMI and IOSCO. Please do not hesitate to contact Andrew Harvey on +44 (0) 203 828 2694, email aharvey@gfma.org, or Fiona Willis on +44 (0) 203 828 2739, email fwillis@gfma.org, should you wish to discuss any of the above.

Yours faithfully
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