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Re: Committee on Payments and Market Infrastructure (CPMI) and Board of the International Organisation of Securities Commissions (IOSCO) Consultative Report on the Harmonisation of the Unique Product Identifier (UPI)

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 the UPI issued by CPMI and IOSCO on 17 December 2015.

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 24 global FX market participants,¹ collectively representing more than 90% of the FX inter-dealer market.² 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.

Introduction

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

¹ Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays Capital, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

² According to Euromoney league tables

of market participants and the volume of transactions are high. Notional turnover, per the last BIS report, is US\$5.3 trillion/day.³

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 trade reporting requirements offer regulators the best opportunity to oversee trading practices and market transparency.

The GFXD welcomes the opportunity to set out its views in response to the Consultative Report.

Executive Summary

UPI Principles and Specifications

- We believe that any proposed UPI structure should not: disrupt the current market structure; place unnecessary technical burdens on market participants; place barriers to entry into the market place, and; allow trading positions to be derived from the public dissemination of data
- The UPI should be granular enough to allow appropriate multiple regulatory obligations to be met, but not too granular so that a new UPI is needed for each transaction
- In order to promote harmonization, CPMI IOSCO should explicitly define how each data element should be populated in the UPI
- Consideration should be made on the relevance or appropriateness of using the UPI structure for other regulatory obligations which require a product identifier
 - E.g. Trading obligation v public dissemination of trade data
- When defining the practicable UPI structure, given that FX forms the basis of the global payments system, consideration needs to be made to the large number of less technically-sophisticated market participants within the FX market
- We support the proposal for FX as demonstrated in Annex 5

³ <https://www.bis.org/publ/rpfx13fx.pdf>

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?

For FX, the GFXD believes that the text used to describe the ‘Data elements for representing an OTC derivative instrument type’ should be clarified as follows:

- A UPI should not be limited to ‘OTC derivatives’. As recognized within this consultation, the term ‘OTC Derivatives’ is not a globally consistent term. We suggest that a UPI could be used to describe any financial instrument. For FX these are FX spot, FX forwards, FX non-deliverable forwards, FX swaps and FX vanilla/exotic/complex exotic options or combinations/variances of each. To enable consistency across participants and jurisdictions we believe that these financial instruments should be easily and consistently identified. It should also be noted that FX futures and retail products such as Continuous FX⁴ may also need a UPI
- The 3 examples provided within the text, ‘forward’, ‘swap’ and ‘option’ are not unique and a single UPI should be able to accommodate combinations of these and other instrument types
- The UPI construct should be able to accommodate market innovation, both to accommodate the needs of the end-users but to also accommodate the unknown changes that the market will face following the implementation of G20 and regional regulations

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 support the submission made by the International Swaps and Derivatives Association, Inc (ISDA). We believe that certain data elements should be included within the UPI and that these should be determined on an instrument by instrument basis due to the heterogeneous nature of the derivatives markets.

We recommend that the UPI structure as defined by the components of the UPI be practicable to: enable regulators the ability to successfully aggregate data to assess risk; enable market participants to implement and use the UPI within real-world trading/reporting timeframes. The issuance/reference process of obtaining a UPI should be scalable and fit the required timeframes in order to ensure that the markets continue to function as required and are not compromised especially in sub-second trading markets like FX. In order for this to be the case, we recommend that certain elements, such as value date, may not be appropriate for inclusion within the FX UPI as this will likely lead to FX UPIs being required at the trade level which is entirely unpractical due to numbers of transactions executed daily in the FX market. If individual trade specifics such as value date are included, we strongly believe that regulators will not be able to aggregate data to assess risk. Finally, we support the text included on page 7 of the consultation paper, where CPMI IOSCO state that ‘The UPI would contain information about the instrument type and product but not about the contract of the transaction.’ We believe that this text correctly defines the required granularity of the UPI.

⁴ <http://www2.isda.org/functional-areas/technology-infrastructure/data-and-reporting/identifiers/upi-and-taxonomies/>

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.

For FX, the GFXD agrees that the combination/set of data elements in the UPI will vary across asset classes.

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

For FX, the GFXD considers that a trade should be reported in the same way as which it is confirmed to the client. If a trade is confirmed as a single package, then that package should be reported as a single trade and will require a single UPI. If the package is deconstructed and confirmed as individual components, then each component will require an individual UPI and linked via the use of a link-ID. This approach mirrors that seen for the UTI, included as such in our recent response to the CPMI IOSCO Consultative Report on the Harmonisation of the Unique Transaction Identifier (UTI)⁵ and we believe this approach affords the regulator the best opportunity to understand the product traded and the linkage between individual components.

We suggest that the treatment of packages is harmonised across jurisdictions, irrespective of the individual, regulated obligations.

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.

In addition to principles and specifications listed, the GFXD recommends the following:

Comprehensiveness

Given the global reach of the UPI and the multiple regulatory uses of the UPI, due care needs to be focused on how the market could leverage a UPI from publically available data to determine the positions of other market participants. Current drafting singularly focuses on how authorities would use the UPI to aggregate data. Additionally, we would also like to state that a market participant should not be able to aggregate data from the (regulatory driven) publically available data to determine the positions and trades of another market participant. Care needs to be given to the UPI structure so that this does not become an unintended consequence.

Scope neutrality

We believe that any scoping exercise should consider the differing regulatory obligations which require a UPI – noting these are not yet harmonised – such as the multiple pre/post/transaction/best execution reporting v trading obligations. The risks to market participants are different for instance in the trade space vs. post trade space, noting that what may be suitable for inclusion when reporting data to a regulator for post trade surveillance (e.g. EMIR trade reporting) may not be appropriate for inclusion in the public dissemination of trade data (e.g. MiFIR).

⁵ <http://gfma.org/correspondence/item.aspx?id=723>

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.

We support the submission made by ISDA.

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

We suggest that whilst this consultation is designed to assess proposed principles and high level specifications (and UPI granularity) with future consultations assessing other related issues such as governance, we believe that for cross border, global markets, such as FX, that this approach could result in a UPI that is not practicable.

We suggest that ALL facets of a UPI, including governance and the practical implementation and use by market participants who: (i) reside in different jurisdictions, (ii) are overseen by different national competent authorities and, (iii) have differing levels of technical sophistication, should be the starting point in any UPI design and all facets should be considered as a whole. Whilst we understand that governance will be discussed in future consultations, we believe that the governance model is paramount to the success of any UPI solution. We will welcome the opportunity to further comment on governance as a fundamental requirement, especially considering the challenges to be overcome with issuance, duplication, timeliness, cost, prioritisation and regulatory oversight/ownership.

For highly dynamic markets like FX, we recommend that the time taken to issue a UPI needs further thought especially if firms are tied-into specific technology solutions. For instance, depending on the finally agreed UPI structure, consideration may be needed on how high volumes of UPIs are issued, validated and communicated during the trading process, which for FX could be intra-second. Such a process may require several steps, one of which is likely to require reference to a centralised database to see if the UPI already exists. This increased technical burden may result in new barriers to market entry and expected increased costs to clients.

We also suggest that given the cross-border nature of the FX markets, that strong consideration is applied to the varying data/banking privacy laws across jurisdictions. We suggest too that given the current jurisdictional variances in what data is made public and when, that it should not be possible to use a UPI to determine the positions of a market participant, ultimately impeding their ability to hedge any open positions.

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.

The GFXD has no comments in response to this question.

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?

For FX, the GFXD supports the view that there should be an ‘other’ value at the financial instrument level (e.g. FX spot and FX forwards) as this will allow the UPI structure to accommodate innovation as well as complex/bespoke products; these are infrequently traded and do not have agreed, standardised industry terms. We do not support the view that ‘other’ should be included as a specific data element/ data field. We note that the current ISDA FX taxonomy is typified by such an approach, and as a product becomes more standardised, (in that it is traded more frequently with the industry being able to support automated execution and/or confirmation processes) it is able to ‘migrate’ through the taxonomies to finally reside in the product taxonomy most suited to represent its features. For example, the ISDA Taxonomy 2.0 was recently updated to create new Exotic category for Targets, Accruals and Forward Volatility Agreements rather than these products residing in the Complex Exotic Generic bucket.

We believe that the use of the ‘other’ value will enable more accurate trade reporting of non-standardised products, and where required, allow both parties to match their submissions at the trade repository. Such flexibility will enable market participants to create a UPI at execution for non-standardised products.

We do not believe that for FX, the ‘other’ value should be limited in number – such an artificial approach will not benefit the obligations in which a UPI is required. It should be remembered that the vast majority of products will be correctly tagged with an accurate UPI and that the volumes of trades in FX which will require the ‘other’ category will be substantially less than 1% of total global FX volume.

Finally, we believe that leveraging the ‘other’ value will enable accurate bucketing of products for public dissemination of data, where we believe and support existing U.S. practices taken to prevent market makers’ positions from being deduced, thus impacting their ability to hedge and manage their risk accordingly.

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?

We support the submission made by ISDA.

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

For FX, the GFXD generally supports the FX examples proposed in Annex 5. However, it is worth clarifying that further thought should be given to the ‘option type’ as generally a FX option has both a put and a call with one party selling and one party buying the option rather than one party selling a put and buying a call. Mapping of the most commonly traded products to such a schema may highlight other items for consideration.

Regarding field content, we strongly suggest that CPMI IOSCO should provide explicit guidance and clarity so that it will not be possible for the two counterparties to a trade to generate two different UPIs for the same trade.

We believe that due to the varying regulatory obligations requiring a UPI (such as real-time public reporting) that each counterparty to the trade should not be (but may agree to be) reliant on the other to generate and communicate the UPI. For example:

1. CPMI IOSCO should explicitly define the population of each data field. For instance, if a field is to be populated with 'Cash' then this should be abbreviated to 'C' and defined as such. The intention should be to prevent each national competent authority interpreting/ 'gold-plating' per jurisdiction which we believe will result in further harmonization issues
2. Any product with multiple underliers should have explicit guidance as to the ordering of each underliers e.g. in alphabetic order or constituent weighting. Consideration should be made to the maximum numbers of underliers allowed and we believe that the length of the UPI should be limited and be practicable

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)?

For FX, the GFXD suggests that if the currency pair is deemed to be the underlier, then CPMI IOSCO should explicitly define how the two currencies should be ordered. We strongly suggest that that should not be possible for the counterparties to a trade to generate two different UPIs for the same trade. In conjunction with other parts of regulation where ordering of currencies is required, we suggest that the first currency should be currency which is first when sorted alphabetically by ISO 4217 code (noting that non-ISO currency codes should be mapped to their on-shore equivalent).

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.

We note that for FX, apart from the current ISDA FX taxonomies, there is not an industry-wide standard for FX. The ISDA standard is available to all market participants, although it does have its own governance process which we support.

Implementation challenges for FX will be complicated by the geographical distribution of FX market participants, the volume of cross-border transactions (what are the requirements for instance if a trade is between a G20 and non-G20 country?) and the varied technical sophistication of market participants. We believe that CPMI IOSCO should provide explicit guidance as to how each data element should be represented and there should not be the opportunity for a single trade to have two different UPIs.

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?

For FX, apart from the previously discussed current ISDA FX taxonomies, there is not an industry-wide standard. The ISDA standard is available to all market participants, although it does have its own governance process, which we support.

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?

For FX, apart from the previously discussed current ISDA FX taxonomies, there is not an industry-wide standard. The ISDA standard is available to all market participants, although it does have its own governance process, which we support.

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?

For FX, the proposed approaches in Annex 5 are very similar in construct to those currently employed in the ISDA FX taxonomies and we note that there is an established (working) governance process for updating the ISDA taxonomies.

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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