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

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| Respondent name: | HSBC Bank plc |
| Contact person: | |
| Contact details: | |

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## General comments on the report:

HSBC welcomes the opportunity to provide written comments on the consultative report regarding the harmonisation of the second batch of critical OTC derivatives data elements.

HSBC understands the need to harmonise critical data elements, however we do not understand how this is achieved by adding new data elements to be reported. We consider that a better approach would be to be to focus on harmonising the existing reportable data elements, and would recommend this be achieved through greater clarity within the technical requirements/standards produced by regulators after thorough consultation with the OTC derivatives industry.

Additionally, the report often refers to ISO20022 as the existing industry standard for data elements. HSBC does not consider this to be the case, and would like to highlight that FpML is a far more widely adopted standard across the OTC derivatives industry. As a result, to move away from FpML would be unnecessarily disruptive to reporting parties who have systems and operational processes designed to use FpML. Furthermore, HSBC believes that the terms within ISO 20022 do not appropriately reflect the terms used by market participants within the OTC derivatives industry to agree and confirm their transactions, and therefore HSBC does not see any value to be gained in moving away from the existing FpML standard which is long-standing and functions well.

## 2.1 Reporting timestamp

Comments on the data element "reporting timestamp":

If the intention is to capture the timestamp at which the trade reached the Trade Repository and therefore was reported, HSBC believes that it is more efficient for Trade Repositories to report this field, rather than reporting counterparties.

If the responsibility falls to the reporting party, HSBC would like to clarify that it is only the timestamp of the report being submitted by the reporting party on that particular occasion which needs to be reported. In other words, reporting parties should have no obligation to capture or report the timestamps of reports made by other reporting parties.

## 2.2 Execution timestamp

Comments on the data element "execution timestamp":

HSBC understands the importance of capturing the time of execution, however we would like to highlight the challenges that will arise should this field be made a 'matching' field. Particularly with voice methods of execution, each counterparty may capture the execution time slightly differently, resulting in differences in the execution timestamp which would be reported by each counterparty in jurisdictions where dual sided reporting is required. Matching on the execution timestamp provides no meaningful value and therefore should not be required.

## 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?

HSBC would recommend that additional language be added to clarify whether final settlement date refers to the latest possible settlement date, or the date of actual settlement.

If the former, it is not clear what value this information is providing to regulators over and above the expiry date which is already a reportable field.

Other comments on the data element "final settlement date":

HSBC is of the opinion that capturing the final settlement date of a trade would provide valuable information to regulators, however if final settlement date refers to the date of actual settlement (per response to Q1) we envision that this will be technically challenging to implement.

Take for example an FX Option barrier trade where settlement is triggered by a market movement; the settlement date is not known at execution and therefore not possible to report. It would only be reportable once the settlement has been triggered, requiring firms to implement reporting of this event, which is usually captured in the form of an FX Spot trade and not a reportable product under the majority of regulatory reporting regimes. Furthermore, an FX Option whose settlement is triggered on expiry would be considered matured and therefore it would not be possible to update the record in the Trade Repositories.

HSBC does not envision the same technical challenges if final settlement date refers to the latest possible settlement date, based on the expiry date of the option.

## 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, it is not clear that the settlement currency of swaptions is the currency of the underlying swap. HSBC believes that it is useful to capture the settlement currency of cash-settled trades and it may not always be the case that the currency of the underlying swap is the settlement currency.

Other comments on the data element "settlement currency":

It is not clear to which types of trades this field applies. HSBC believes that the only scenario in which it is useful to capture the settlement currency is on a cash-settled trade, where the currency of settlement may be different to that/those of the underlying trade. With physical settlement the settlement currency would provide no meaningful information above what is reported as the underlying currency/currencies.

HSBC believes that only currencies that are supported within ISO 4217 should be permitted for reporting purposes. This would make reporting consistent with industry practices used in settlement and confirmation. For example, trades priced as CNH (offshore CNY) are confirmed as CNY; SWIFT messaging does not support use of CNH.

## 2.5 Confirmed

Comments on the data element "confirmed":

HSBC has no specific comments on this data element other than to highlight that the ISO 20022 standard is not considered to be the global standard for OTC derivatives reporting.

## 2.6 Day count convention

Comments on the data element "day count convention":

HSBC has no specific comments on this data element.

## 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?

HSBC has no specific comments on the advantages and disadvantages included in the report.

(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?

HSBC agrees that the values under alternative 2 contain less overlap between them and therefore alternative 2 provides less scope for inconsistency in reporting.

HSBC strongly feels that 'NULL' should not be a permissible value. The examples given in the paper state that this value could be used where payments are irregular, however in such cases ad hoc ('ADHO') would seem the more intuitive choice, and therefore if both values are available this may lead to differences in interpretation across reporting parties and therefore inconsistencies in reporting.

Moreover, HSBC does not see the value of a 'NULL' value in any scenario and recommends it not be used, in favour of values which have a discernible meaning.

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?

HSBC believes that the term 'counterparty' is sufficiently clear.

(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?

HSBC has no specific comments and supports ISDA in their response to this question.

(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?

HSBC would recommend use of an internal identifier assigned by counterparty 1 rather than using a 'null' value if counterparty 2 is a natural person. This permits some form of identification and aggregation across trades, which is not possible with a 'null' value.

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

If the intention of regulators in capturing counterparty type is to capture whether the counterparty is a 'business entity' or a natural person acting as a private individual, then HSBC would recommend that counterparty type is not tied to whether or not the counterparty has an LEI, as is suggested by the definition of counterparty type. There may be instances for example where a business entity has not yet obtained an LEI.

If the purpose of the counterparty type is to capture where entities have not obtained LEIs, HSBC would recommend capturing the type of identifier used by the reporting party when reporting counterparty 2.

Additionally, HSBC considers it necessary to highlight that in scenarios where reporting of a pre-allocated (or "block") trade is required, reporting of the fund manager should be permitted on the pre-allocated trade, even though the fund manager is not ultimately a counterparty to the allocated trades. The allocated counterparties are not known at the time of execution of the pre-allocated trade, however it is at this time that the price-formation takes place and therefore the trade is required to be reported under certain reporting regimes.

## 2.13 Report-submitting entity

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

HSBC has no specific comments on this data element.

## 2.14 Broker of counterparty 1

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

HSBC has no specific comments on this data element.

## 2.15 Central counterparty

Comments on the data element "central counterparty":

HSBC would like to question what value this field is adding, given that Clearing Status and Counterparty 2 are already reportable fields. Once a derivatives trade is cleared, the clearing status will be updated to reflect that, and counterparty 2 will be reported as the central counterparty, meaning there is no need for an additional field to identify the central counterparty.

## 2.16 Clearing member

Comments on the data element "clearing member":

HSBC has no specific comments on this data element.

## 2.17 Platform identifier

Comments on the data element "platform identifier":

HSBC would like to highlight that MIC codes are not considered industry standard for OTC derivatives trading facilities, and therefore they may not be the most appropriate standard to apply in their current form.

Given the use of LEI to report counterparty information, we would recommend the LEI as a more appropriate identifier as the OTC derivatives industry is already familiar with these, which makes it more straightforward for reporting parties to capture, store and report this information.

Regarding the allowable values for where no trading facility was involved, we would like to question what exactly is defined by 'listed instruments'? For example, is any instrument that can be traded on a trading facility deemed to be 'listed', or only those that are published as listed on an official register? HSBC is not aware of any official register that currently exists which would facilitate reporting parties to check which OTC derivatives instruments are listed.

## 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?

HSBC strongly suggests that the definition of inter-affiliate should not be based on any local regulations. A globally consistent definition is required in order to avoid discrepancies in reporting across jurisdictions. We would understand an affiliate to mean any company that controls, is controlled by, or is under common control with another company. Branches of the same legal entity should not be considered to be affiliates, as they are the same legal entity.

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, it is not clear. The term 'booked' or 'booking' is ambiguous and as such the location could refer to many things; it could mean the location of the entity where the book in which the trade is entered resides, or the location of the person who booked (entered) the trade. These could be different locations if the person entering the trade is located offshore.

Other comments on the data element “booking location of counterparty 1”:

HSBC would like to recommend that this data element is not required to be matched in dual-sided reporting regimes, as this would require each counterparty to understand the operational set up of their counterparty beyond a reasonable level of detail.

## 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"?

No, it is not clear who is being referred to as the trader 'responsible for executing the transaction'. There could be multiple people who meet this description; first and foremost this could be interpreted as the trader or the salesperson, depending on which activity regulators are interested in capturing. The salesperson would be the one speaking to the client and potentially entering the deal into the trading system, whereas the trader would be the one pricing the transaction.

Even within these terms there would be ambiguity as to who was 'responsible for executing the transaction'. For example if a Foreign Exchange trader based in London is being asked to price a LatAm currency which he does not usually cover, he may ask his colleagues in New York who are more familiar with the LatAm markets to price the transaction. It is not clear whether London or New York would be the location of the trading desk in this scenario.

Furthermore, where trading is taking place via electronic trading platform it is not immediately clear what the expectation would be for the location of the trading desk. HSBC would recommend that in this scenario, the location of the trading desk is the location of the centre which is currently managing the risk associated with the trades being executed electronically.

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?

HSBC suggests that the number of decimal places should be limited to six for the strike price.

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":

HSBC would like to highlight that the name of the field, specifically the use of the word 'period', suggests that the value should be a date range rather than one specific date. We would therefore suggest that the name of the field is changed to avoid misinterpretation.

Additionally, HSBC would recommend that this field only be required where the product type is an option, rather than requiring the field to be populated with 'null' in such cases.

## 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?

HSBC does not envision any issues with reporting the option premium payment date.

Other comments on the data elements "option premium" and "option premium currency":

HSBC recommends that a zero amount needs to be permissible for the option premium in order to facilitate reporting of zero-premium options.

For complex trades the reporting of the premium is not straightforward, for example some trades within a package could have negative premium whereas the overall package price is positive. HSBC recommends that more analysis is conducted and a common approach is adopted across all regulatory reporting regimes around how to report the premium in such a scenario.

## 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":

HSBC has no specific comments on this data element.

Other comments: