

CPMI-IOSCO

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Re: Harmonisation of the Unique Product Identifier - Second consultative report

General comments

HSBC welcomes the opportunity to provide written comments on the second consultative report regarding the Harmonisation of the Unique Product Identifier. HSBC is supportive of product classification in general as a way to aggregate data across the OTC derivatives market. This should be achieved through a simple and uncomplicated framework in order to maximise the added value.

This second consultative report states that the purpose of the UPI is to facilitate the global aggregation of data across OTC derivative products held in TRs across different jurisdictions. HSBC interprets this to mean that the intention is to use the UPI as a reference point on which to group data, but that it is not intended to act as the sole reference for all of the data points that the authorities are trying to aggregate. For example, if the aim of regulators was to be able to understand the open risk associated with a particular product using *only* the UPI, then the UPI would need to capture all information required to represent risk including the economic terms, which would lead to a contract level UPI as opposed to a product level UPI.

HSBC would like to highlight that the ISDA taxonomy provides an effective product identifier that is already widely used across the industry. While the UPI construct proposed in this consultative report includes additional data elements which would allow for a greater level of granularity than the current ISDA taxonomy, the structure of the proposed UPI is not materially different. HSBC would therefore propose building on top of the ISDA taxonomy in order to achieve a more effective solution with minimal disruption to market participants.

However, it is important to highlight that the industry has been taking a similar approach in using the ISDA taxonomy to underpin the ISIN design in preparation for the EU requirements under MiFID II/MiFIR. Given the importance of harmonisation - which is the essence of the work of CPMI-IOSCO in this space - HSBC strongly recommends that the UPI and ISIN initiatives are aligned in their approach.

Regarding package trades, HSBC supports the view that it is not necessary for the UPI to denote whether or not the product is part of a package. Furthermore, HSBC views an FX Swap as a mechanism of executing two independent FX trades concurrently, and therefore does not believe that a UPI for FX Swaps is appropriate.

The paper comments on the principles of Persistence and Adaptability, acknowledging that there may be instances where a product classification should be made more specific, for example where a product had been assigned an undefined attribute which subsequently becomes defined. It is important to recognise the Trade Reporting challenges that would face the industry in adhering to

the Adaptability principle if strict validation criteria are applied to the UPI such that it becomes a 'locked' field. For example, if an attribute of a given UPI is updated during the lifecycle of a trade such that the UPI changes, the TR should accept subsequent reports on the trade using the updated UPI. However, HSBC believes there should not be a requirement to retrospectively update previously reported trade records to reflect the updated UPI. HSBC supports the concept of a version history, as described under the Adaptability principle, in order for authorities to be able to aggregate across new and old UPIs that represent the same product.

With respect to the comments on ease of generation/acquisition/query, HSBC supports the view that counterparties should not be prevented from executing a trade on the basis of the lack of a UPI. It follows therefore that trades can be executed without UPIs, and thus it must also be possible to report trades without UPIs. This is a further reason why the UPI field should not be assigned strict validation criteria; reporting counterparties must be able to meet their reporting obligations on a given trade in the absence of a defined UPI for the product. To clarify, this means that TRs need to support reporting of trades without a UPI, as well as the submission of subsequent reports on the same trade with the UPI, after it has been obtained. As mentioned previously, HSBC believes there should be no requirements to retrospectively update previously reported trade records to reflect the updated UPI.

Questions

Question 1: Do you believe that the data elements within each asset class described above are appropriate? Why or why not? If there are additional subcategories that you believe should be included for one or more asset classes, please describe them and discuss why you believe they should be included.

HSBC would like to understand the rationale behind the inclusion of Settlement Currency for the FX asset class. HSBC believes that this field is only relevant for cash-settled products such as NDFs. In a deliverable FX transaction such as a FX Forward there is an exchange of both the base currency and the reference currency, and therefore HSBC does not believe there is any value in the identification of a singular Settlement Currency in such a case.

Regarding the currency pair, in order to establish an industry standard HSBC supports the GFXD proposal that for UPI purposes, the first currency in any currency pair should be the one which is first when sorted alphabetically according to ISO 4217 code, e.g. CHFUSD rather than USDCHF.

As mentioned above, HSBC does not believe that a UPI for an FX Swap is required, given that an FX Swap is a mechanism for executing two independent FX trades concurrently. The two independent FX trades that comprise the FX Swap should have their own UPIs.

Question 2: Do you believe generally that the value "Other" is required in certain data elements? If so, which ones and why?

The value "Other" may be required as a data attribute for products where a particular attribute is not yet defined, for example in complex products. HSBC does not believe that the value "Other" should be used to define a product in its entirety, except for the highly unlikely scenario where none of the data attributes are yet defined.

Question 3: For an OTC derivative product based on a custom basket of securities or assets, please provide your view of the optimal means of representing that OTC derivative product. Do you believe that it is practical to include all of the underlying securities or assets and their

risk weights in the UPI reference data? If not, how do you believe that the elements of the custom basket and their risk weights should be reported to a TR?

HSBC would like to enquire whether the intention of CPMI-IOSCO is to construct a UPI that allows for aggregation across all instruments that are based on baskets of securities or assets, or to aggregate on the basis of each individual basket. If the latter, then this can only be achieved by inclusion of all of the underlying assets or securities, however HSBC recognises that this would be highly complex to implement and recommends that further dedicated thought and work should be undertaken by the authorities in conjunction with the industry on this topic.

Question 4: How should underlying assets and reference entities be represented in the UPI reference data library? Would LEIs be suitable, at least for corporate reference entities? Why or why not? Are there suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

In general, a common industry standard should be used where available, such as the ISO 4217 standard for currencies. HSBC supports the GFXD in the proposal that where an offshore currency is used, this should be mapped to the onshore ISO 4217 equivalent e.g. CNH to CNY.

Question 5: Do you envisage any obstacles to including the source of the identifier for the underlier as part of the reference data element for the underlier? Please explain and justify.

HSBC does not envisage any obstacles to including the source of the underlier, but recommends that consistent sources are used across the industry wherever possible to reduce scope for error and matching challenges.

Question 6: Could there be issues related to including proprietary benchmarks and indices in publicly available reference data or publicly disseminated UPIs? Please elaborate on any issues such as licensing that may exist.

HSBC does not have comments regarding the use of proprietary benchmarks or indices in publicly available reference data or publicly disseminated UPIs. HSBC recommends that benchmark information is not required as part of the UPI if the benchmark is only relevant to the economic terms of the contract as opposed to the product underlier.

Question 7: What are the arguments for and against the use of a dummy UPI code or an intelligent UPI code, or having both types of code coexisting?

HSBC recommends the use of dummy codes rather than intelligent codes on the basis that dummy codes would be more straightforward to implement and maintain. Intelligent codes are far more complex to implement with little added benefit.

Question 8: Do you agree that a well-articulated UPI reference data library could support interoperability between dummy UPI codes and intelligent UPI codes? Why or why not? What steps could be taken with the UPI reference data to facilitate supporting both types of UPI code?

HSBC does not consider there to be any material benefit of supporting both dummy and intelligent codes. Any benefit is likely to be outweighed by the large-scale implementation efforts that follow from a complex design. Without careful implementation, a mixture of dummy and intelligent codes could also introduce risks around misinterpretation.

Question 9: What are the minimum and maximum lengths (in terms of number of characters) that you believe the industry could accommodate for a UPI code system? How does this vary between dummy and intelligent codes? What do you believe is the optimal number of characters, and why?

The number of characters needs to be consistent with the length that key financial systems and message types can support, in line with Principle 3.15 (Representation). As HSBC supports the use of a dummy code, HSBC does not consider a requirement for the UPI to consist of more than 12 characters as this should be sufficient to ensure there are enough unique combinations to support all products across the OTC derivatives industry.

Question 10: For intelligent codes, how should the information be encoded? Are there existing models for this? How much adaptation would existing models require in order to meet the needs described in this consultation?

HSBC recommends the use of dummy codes rather than intelligent codes.

Question 11: Do you believe that UPI codes should have an inherent means of validation? For example, should UPI codes include a check digit? Why or why not? Does this vary between dummy and intelligent codes and/or depend on the encoding method used in an intelligent code?

HSBC recommends the use of a check digit in dummy codes as a means of validation.

Question 12: Another means of having a simple, partial validation for a UPI code would be for all UPI codes to be of uniform length: thus, any code that was not of the required length could be recognised as prima facie invalid. Do you believe that all UPI codes should be of uniform length? Why or why not? Or are optimal UPI codes of one asset class likely to be longer or shorter than optimal UPI codes for other asset classes? If so, do you believe that extra dummy characters should be inserted into the shorter codes to make them of the uniform length? Why or why not?

HSBC recommends that all UPIs be of uniform length.

Question 13: For an intelligent UPI code, how should the underlying asset(s) or reference entity (entities) be represented within the UPI code? Would it be preferable for the part of the UPI code that represents the underlying asset(s) or reference entity (entities) to be dummy while the rest of the code is intelligent? Why or why not?

HSBC recommends the use of dummy codes rather than intelligent codes and does not envision any material benefit of supporting a UPI that is a combination of both. Any benefit is likely to be outweighed by the large-scale implementation efforts that follow from a complex design.

Question 14: Should the UPI code system avoid using Roman letters? Why or why not? Are there particular jurisdictions whose computer systems cannot accommodate Roman letters?

HSBC is not aware of any computer systems that are not able to support Roman letters.

Question 15: Would it be preferable for the UPI code to use only Roman letters, only Indo-Arabic numerals, or a combination of the two? Why? If Roman letters are included in the

UPI code system, should they avoid being case-sensitive? If the UPI code system uses both Roman letters and Indo-Arabic numerals, should the system not disallow particular characters that could be mistaken for each other (the lower-case letter “l” and the number “1”, the digit “0” and the upper-case letter “O” etc).

HSBC does not envision any issues with the UPI using a combination of Roman letters and Indo-Arabic numerals, and believes that the UPI should be case insensitive. Nevertheless, UPI issuers and reporting parties should be encouraged to use one case consistently throughout each UPI (as opposed to a mixture of upper and lower case letters) to reduce scope for misinterpretation. Providing this standard is followed, there should be no need to disallow certain characters as both computers and humans should be able to differentiate.

Yours faithfully,

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