



[Submitted via electronic submission]
CPMI-IOSCO

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Re: Harmonisation of the Unique Product – Consultative Report

HSBC welcomes the opportunity to respond to the Consultative Report on Harmonisation of the Unique Product Identifier. This letter comprises our supplementary comments to the submission by The International Swaps and Derivatives Association, Inc. (ISDA) and The Global Foreign Exchange Division (GFXD) with whom we have engaged throughout the consultation period.

Consultation Response

HSBC welcomes the opportunity to encourage global harmonisation of key data elements – this is particularly apparent to the Unique Product Identifier (UPI) considering issues in the current and future reporting landscape.

We recognise the FSB's conclusion that harmonisation of data elements such as UPI is critical for aggregating and sharing of data and have attempted to apply this principle in our considerations. We believe that the UPI should not negatively impact the market through interrupting or impeding trade execution flow and order fulfilment nor necessitating major redevelopment of established market infrastructure which could place additional burdens on the many market participants in the market that transact for commercial purposes.

To be successful a UPI technical standard will need to be prescriptive and stringent. HSBC believes that the only approach to implementing a prescriptive and stringent technical standard without negatively impacting the market is through extensive consultation on the precise standard and a long lead time. As a comparable example, Swift standards have a stringent Change Request process that require a business case, stipulates adherence to SWIFT Guiding Principles and is subject to a formal sponsorship and approval process that incorporates SME industry involvement via customer and industry working groups. Maintenance Working Groups and National User Groups formally vote to nominate Change Requests before submitting for global and Board ratification. All development is implemented via SWIFT Standards which has a regular release date and is accompanied by Standards Release Guide and Message Format Validation Rules published in advance.

HSBC has extensive experience in trade aggregation through regular Business As Usual activities such as portfolio compression and settlement netting, it is our experience that these processes require a limited amount of data elements to work effectively. Increasing data generally has a negative effect on aggregation.

Q1 - Are the above three OTC derivative instrument types sufficient to describe (in combination) all OTC derivatives? Which OTC derivatives would fall outside this approach?

Some traded instruments contain elements of more than one of the instruments listed e.g. Swaptions, hybrids and packages; where combinations of multiple instruments are required it is our recommendation that UPI technical standards include prescriptive instructions on the exact hierarchy participants should employ to each product.

It is crucial that the method of implementation for creating, sharing and reporting UPI's does not compromise the ability for new structures to evolve in the market. Therefore, there must be flexibility in reporting of UPI's such that reporting can be aligned to the way trades are represented in the market, execution platforms and trade capture systems. Further, where some products are reported over multiple legs and linked (see previous IOSCO UTI paper's question re Packaged Transactions), recipients of reported data will need to understand how the different instrument combinations work together to complete the full product classification.

Q2 - 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.

In order to allow for global harmonisation, we believe flexibility should be limited; greater prescription by regulators is the best way to enforce compliance. A finite amount of data elements should be included at a relatively high level, allowing users to group products by instinctively logical bands. If underlier is to be used then it is important to consider which level of granularity would assist with aggregation and where too great a level of granularity becomes a barrier to sufficiently understand the product definition. We would recommend a detailed technical requirement published by regulators, explaining the definition of 'underlier' and acceptable values. Further, such requirements should explicitly instruct reporting participants how to populate UPI's with multiple and changeable underliers - E.G. Equity Swap basket products often include multiple underliers, and that can be added/removed throughout the lifecycle of the trade.

Q3 - 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, we believe that there are various data elements that are unique to each product type. However, it should be noted that introducing differences will add to the complexity and variety of UPI's, very probably reducing the ability to aggregate positions.

Q4 - Do you agree with this approach to the UPI's treatment of package trades? If not, please explain and suggest alternatives.

We agree with this approach to package transactions (I.E. packages can be reported as multiple legs, linked by an appropriate unique identifier. This would allow participants to employ more specific UPI labelling to ensure that packages including multiple asset classes do not contaminate aggregation efforts.

Q5 - 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.

HSBC believe a key component in achieving global UPI harmonisation lies with the regulators ensuring that the approach is logical and the result practically understandable throughout the market. We caution against the inclusion of Underlier Data Elements such as issuer, index and

tenor as these introduce an almost infinite variation of results, producing such a huge volume of integers and therefore UPI's, the results lose their usefulness and deviate from the principles of aiding market transparency and assisting with risk management.

Q6 - 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.

Yes, other than the points within our responses to the previous questions, HSBC believe the principles and specification to be sufficient.

The UPI code must be global, uniform, prescriptive (e.g. of fixed length) and transparent enough to encourage practical application throughout the market. Any element of UPI left open to interpretation by participants, regulators or National Competent Authorities will encourage duplication and proliferation of multiple differing UPI's per unique products.

Q7 - Could some of these principles and high-level specifications pose implementation challenges? Which ones and why?

As previous noted in our response to Q2, products including multiple and changeable underliers will be negatively impacted by persistence.

A UPI containing many data elements will increase complexity that will very likely introduce challenges such as interoperability with existing market classifications, time to market of products requiring new UPI's and compatibility with existing system infrastructures.

Q8 - 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.

Where a market wide utility is mandated or deemed the most appropriate solution to create, maintain and distribute UPI's it must contain stringent governance and control over the UPI environment, preventing multiple participants creating UPI's against the same unique product through lack of transparency of available values, lack of openly available information or dissemination or operating costs.

Where the mandate allows many certified platforms or participants to create and maintain UPI's then a strict requirement to interoperate and collaborate must be enforced by regulators to minimise the types of issues encountered under existing regimes such as LEI (participants creating LEI's for third parties and vice versa, multiple LEI's created for same entity etc).

Q9 - 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?

Yes, to account for bespoke products that can never fall under a defined UPI as well as new products waiting for a UPI. These should always be low volume provided the industry has a proper governance structure to a) provide an exhaustive UPI list at go-live and b) to define new UPIs - so capping should not be required. As mentioned in the paper, the governance structure will be defined separately via work being done by the FSB.

Q10 - 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 are not aware of a product identification or classification system that is widely used in the OTC derivatives space for the purpose of position and risk analysis. Where market participants employ certain utilities for the purposes of trade portfolio compression and netting of settlement movements, those utilities have worked with their members to establish rules on the respective attributes of trades and positions which are less granular than those listed within this consultation.

Q11 - Do the options presented above appear operationally feasible? If not, please explain why.

For trades with multiple underliers it isn't practical to include ALL values, some basket trades can contain hundreds of underliers.

If we are to report UPI as a value in Repositories, Public Dissemination and use to aggregate then it should be kept to a practicable fixed length of characters.

Q12 - 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)?

It is HSBC's opinion that the inclusion of underlier values as outlined within the consultation paper will introduce confusion and necessitate the creation and maintenance of so many new UPI's, the market will be negatively impacted.

Q13 - 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 know of no such system, those that exist such as IBAN, for ISIN's or Markit for RED are subscriber models that rely on their members to distribute through post trade operational processes.

Q14 - 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?

As above.

Q15 - 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?

As above.

Q16 - 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?

No comment.

Yours faithfully,

A handwritten signature in black ink, reading "Allan Guild". The signature is written in a cursive style with a large initial 'A'.

Allan Guild
Regulatory Change
HSBC Bank PLC