



[Submitted via electronic submission]
CPMI-IOSCO

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Re: Consultative Report on the harmonisation of key OTC derivatives data elements (other than UTI and UPI) – first batch (September 2015)

HSBC welcomes the opportunity to respond to the Consultative Report on the harmonisation of key OTC derivative data elements. 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

Harmonisation

We are fully supportive of the work done by CPMI, IOSCO and other industry participants with respect to improving data harmonisation, with the aim of increasing efficiency and accuracy of reporting.

All data elements must be sufficiently explicit and granular, limiting the possibility of misinterpretation or incorrect formatting. This must be implemented at both industry and regulator level, with preference given to harmonisation of existing data elements as opposed to new elements yet to be formalised.

As a change in data element would likely result in the requirement for internal system development, any such change must be implemented at a global level by regulators. Where possible, this should also be extended to other regulatory initiatives outside of OTC derivatives reporting. This is a key component of harmonisation as it is highly challenging to make systemic change at either a jurisdictional or regulation-specific level.

Industry Standards

It is essential that any data harmonisation does not compromise existing market practice and conforms to existing industry standard. There must be alignment to how clients and market-makers currently manage OTC derivatives products – examples include the use of FpML as a standard message format and ISO 8601 for reporting of date and time.

Below are our specific comments with respect to each question/recommendation for your consideration:

3.1 List 1: OTC derivatives' basic economic terms (stemming from "Annex 2 list")

3.1.1 Effective Date

- 1. With reference to alternatives proposed for data elements included in the group "Date" (data elements 1.01, 2.01) and "Timestamp" (data element 8.03 in List 1 and data element 2.02 in List 2)**

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

(b) Is the proposed default value sufficiently unambiguous? Will users of TR data be able to distinguish between the default value for timestamps and reported timestamps? If this would not be possible, what alternative do you suggest?

(c) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

We are in full agreement of the response provided by ISDA on implementation of 'Effective Date' – Alternative 1 (use of Effective Date only, not including Timestamp) is strongly preferred. Alternative 1 is more aligned to existing market practice, with execution timestamp not required for regulatory compliance, trade execution or matching currently.

As stated by ISDA: 'A time is not agreed, nor is one generally relevant, between market participants on a transactional basis in respect of either the Effective Date or the End Date of an OTC derivatives transaction. Any relevant time and any applicable time zone which may be necessary to determine when the obligations under a contract either come into effect or cease to be effective are contractually defined by the associated product definitions that govern the transaction.'

As seen with the confirmations process today, default times (such as 00:00.01 or execution time +24 hours) are typically used for confirmation timestamp. It is likely that a similar approach would be adopted for effective timestamp if this field is required, with these default times being of limited benefit to the regulator.

With respect to format of Effective Date, we support the use of ISO8601 in line with existing industry standard, in format YYYY-MM-DD.

3.1.2 End date

No specific questions given in consultation paper

As detailed in the response to Question 1), we are fully supportive of Alternative 2 for both End Date and Effective Date, with reporting based on date only as opposed to timestamp.

3.1.3 Cleared

2. **With reference to alternatives proposed in the allowable values for the data element “Cleared”:**
 - (a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?**
 - (b) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**
 - (c) Are the proposed alternatives sufficient to accommodate the potential need to distinguish between direct and indirect clearing?**

It is acknowledged that the use of additional allowable values (as opposed to a binary yes/no indicator) for Cleared indicator would provide greater granularity to the regulator. However, as detailed in the ISDA response, there are a number of clearing scenarios for which distinction between Option 2 (Principal model – clearing member trade) and Option 3 (Principal model – CCP trade) may not be explicit.

Therefore, our preference would be to adopt Alternative 3 and the related definitions as given in the ISDA response, which lists four options for reporting of Cleared indicator:

- Not cleared
- Intent to clear
- Cleared (Principal)
- Cleared (Agency)

We support ‘Intent to clear’ indicator on the basis there is no requirement to retrospectively update the trade upon clearing to indicate the model used (i.e. Principal vs. Agency), as this would require significant system change.

3.1.4 Settlement Method

No specific questions given in consultation paper

Our preference would be for 'Election' to be a distinct allowable value. Specifically, this should replace 'Other,' as neither HSBC nor the industry (via ISDA) has provided alternative settlement types that would not be categorised as 'Cash' or 'Physical.'

The specific settlement method must be defined at the asset class level, as detailed in the ISDA response:

- *For interest rates, credit, equity and commodity derivatives, the defined terms are “Cash Settlement” and “Physical Settlement”.*
- *For FX the defined terms are “Non-Deliverable” and “Deliverable”, where “Non-Deliverable” is equivalent to “Cash Settlement”, and “Deliverable” is equivalent to “Physical Settlement”.*

Finally, we would propose that 'Cash' be replaced by 'Financial,' which is more representative of settlement as per current trading and confirmation market practice.

3.1.5 ID of the primary obligor

3. With reference to the definition of “ID of the primary obligor 1” (data element 5.01) and “ID of the primary obligor 2” (data element 5.02):

(a) Would the guidance be sufficiently clear in the case of original and cleared trades, taking different clearing models into consideration?

(b) Would the guidance be sufficiently clear in the case of trusts or collective investment vehicles?

We are not supportive of obligor as a reporting field. We believe the current combination of Counterparty, Agent and Beneficiary are sufficient and provide necessary regulatory transparency, including in the cases of trusts of collective investment vehicles.

'Obligor' is not part of standard OTC derivatives terminology nor is it included in any product definitions. Trade Repositories already provide multiple attributes which are used to indicate counterparty identifiers and the direction of the trade – as given in the list of DTCC fields used for EMIR/DFA reporting overleaf.

GTR reporting fields – DTCC:

EMIR Reporting Fields	DFA Reporting Fields
SYSTEM DERIVED REPORTING PARTY	DATA SUBMITTER LEI VALUE
TRADE PARTY 1 VALUE	ADDITIONAL REPOSITORY 1 LEI
EXECUTION AGENT PARTY 1 VALUE	ADDITIONAL REPOSITORY 2 LEI
CLEARING BROKER PARTY 1 VALUE	ADDITIONAL REPOSITORY 3 LEI
CLEARING BROKER PARTY 1 ID CCP LEG	TRADE PARTY1 LEI
CLEARING BROKER PARTY 1 ID CLIENT LEG	TRADE PARTY2 LEI
TRADE PARTY 2 VALUE	TRADE PARTY 1 VALUE
EXECUTION AGENT PARTY 2 VALUE	EXECUTION AGENT PARTY 1 VALUE
CLEARING BROKER PARTY 2 VALUE	CLEARING BROKER PARTY 1 VALUE
CLEARING BROKER PARTY 2 ID CCP LEG	TRADE PARTY 2 VALUE
CLEARING BROKER PARTY 2 ID CLIENT LEG	EXECUTION AGENT PARTY 2 VALUE
DATA SUBMITTER LEI VALUE	CLEARING BROKER PARTY 2 VALUE
SUBMITTED FOR VALUE	CLEARING EXCEPTION PARTY VALUE
CLEARING DCO VALUE	SETTLEMENT AGENT PARTY 1 VALUE
CLEARING EXCEPTION PARTY VALUE	SETTLEMENT AGENT PARTY 2 VALUE
SETTLEMENT AGENT PARTY 1 VALUE	EXOTIC BUYER PARTY VALUE
SETTLEMENT AGENT PARTY 2 VALUE	EXOTIC SELLER PARTY VALUE
DF REPORTING PARTY	BROKER ID PARTY 1 VALUE
EXCHANGED CURRENCY 1 PAYER VALUE	BROKER ID PARTY 2 VALUE
EXCHANGED CURRENCY 2 PAYER VALUE	BENEFICIARY ID PARTY 1 VALUE
OPTION SELLER VALUE	BENEFICIARY ID PARTY 2 VALUE
OPTION BUYER VALUE	TRADE PARTY1 BRANCH VALUE
PREMIUM PAYER VALUE	TRADE PARTY2 BRANCH VALUE
EXOTIC BUYER PARTY VALUE	SUBMITTED FOR VALUE
EXOTIC SELLER PARTY VALUE	CLEARING BROKER PARTY 2 ID CCP LEG
	CLEARING BROKER PARTY 2 ID CLIENT LEG
TRADE PARTY1 LEI	CLEARING DCO VALUE
TRADE PARTY2 LEI	
TRADE PARTY1 NAME	EXCHANGED CURRENCY 1 PAYER VALUE
TRADE PARTY2 NAME	EXCHANGED CURRENCY 2 PAYER VALUE
BROKER ID PARTY 1 VALUE	PREMIUM PAYER VALUE
BROKER ID PARTY 2 VALUE	OPTION BUYER VALUE
BENEFICIARY ID PARTY 1 VALUE	EXOTIC BUYER PARTY VALUE
BENEFICIARY ID PARTY 2 VALUE	OPTION SELLER VALUE
TRADE PARTY1 BRANCH VALUE	EXOTIC SELLER PARTY VALUE
TRADE PARTY2 BRANCH VALUE	TRADE PARTY1 NAME
	TRADE PARTY2 NAME

3.1.6 Notional amount

4. With reference to the definition for “Notional amount”:

(a) Should guidance be complemented by a definition of “leg 1” and “leg 2” or are market conventions already clear? In the former case, which definition would you suggest? If relevant, please provide an asset-class specific answer.

We believe market conventions are already clear; defining what should be leg 1 & 2 is not required and will create complexity for matching.

(b) As regards FX derivatives, the solution proposes only two notional amounts based on the assumption that for FX swaps the spot and the forward leg are represented as two separate transactions with separate UTIs linked via a linkage data element. Should the Harmonisation Group take into consideration an additional alternative? If yes, which one and why? For example, should the Group require a total of four FX notional amount data elements namely two notional amount data elements to represent the two currencies associated with each leg of the swap?

(c) Should the Harmonisation Group in the future decide to provide harmonisation guidance also for the notional amount of commodity derivatives, which aspects should it take into account? How should this potential harmonisation proposal be defined for different commodity derivatives?

Our preference is to leave the reporting as it currently stands – with two legs (spot and forward) reported separately and linked using the Link ID field. No additional alternatives need to be taken into consideration.

As stated in our response to Harmonisation of the Unique Transaction Identifier, we regard it as more important to address the issue of reportability where one of the legs to the trade has an expiry date of <T+3.

5. With reference to alternative 1, which harmonises both the actual “Notional amount” (Data elements 6.01 and 6.02) and the “Original notional amount” (Data element 6.04), versus alternative 2, which harmonises only the actual “Notional amount” (Data elements 6.01 and 6.02):

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

(b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

We are supportive of Alternative 1 as this allows for a more accurate reporting of current risk view of trades with varying notionals, such as amortised swaps. We agree with the proposal to the extent that the reporting of Original notional amount is aligned with the reporting requirements of UTI; where a new UTI is created, an Original notional amount should be reported where applicable.

It should be noted that the FX industry currently supports a practice whereby parties modify the notional amount throughout the life of trades when such a contractual event occurs - although this doesn't match directly with regulatory requirements that contractual events are not reportable. In this instance, the modification should be processed as an amendment, with no new UTI created.

We would suggest 'Notional amount' is referred to as 'Current notional amount' for the avoidance of doubt – 'Current notional amount' and 'Original notional amount' being the applicable reporting fields.

3.1.7 Notional currency

6. With reference to alternatives proposed in the allowable values for the data elements "Notional currency" (alternative 1 and 2):

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

(b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

Our preference is Alternative 1, as non-ISO currencies require additional maintenance both internally and externally. It would be logical to use ISO currencies only in line with current reporting practice and other industry utilities.

Were Alternative 2 (use of non-ISO currencies such as CNY) implemented, guiding principles should be provided on the requirement to map to ISO currencies.

3.1.8 Valuation

7. With reference to the data element "Valuation amount":

(a) Are the two proposed alternatives agreeable? Please specify for which types of derivatives which of the alternatives should apply.

(b) Should the following factors, upfront payment and daily settlement of the derivatives transaction, be reflected in the valuation amount? If yes, please specify how.

We are in agreement with the ISDA response for Notional Currency – for OTC derivatives reporting Alternative 1 is more applicable as it mirrors current market practices and is aligned to the portfolio reconciliation process:

The valuations for portfolio reconciliations are mid-market fair values for OTC derivatives calculated under such approaches as defined in global accounting principles (such as the International Financial Reporting Standards (IFRS)). The current market practice aligns with Alternative 1, regardless of asset class, with no expression of positive or negative numbers.

If a trade is noted as long or short, a positive or negative expression is not necessary for valuations reported as replacement cost (Alternative 1)

For valuation timestamp (data element 8.03), the valuation we currently provide is defaulted to the time we run the price, as opposed to the last update at a trade level. We would encourage clarification to be provided on the parameters required for reporting of valuation timestamp.

8. With reference to alternatives proposed for included in the group “Valuation” (data elements 8.04 and 8.05):

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

(b) Which of the proposed harmonisation alternatives should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?

We do not support Alternative 1 which involves separate reporting of Valuation source (Data element 8.05) - this is not a required field currently and would require significant IT build.

We are supportive of Alternative 2, which includes the option to report either mark-to-market or mark-to-model valuation type, or alternatively indicates valuation reporting is to be done by the CCP. Where the latter is the case, it is important that the reporting obligation is imposed on the CCP accordingly by the regulators.

Additionally, system build will be required where there is a requirement to consume CCP valuation internally, as this is not currently supported systemically.

3.2 List 2: Additional data elements desirable to appropriately capture basic terms of economic activity

3.2.1 Early termination timestamp

No specific questions given in consultation paper

Similarly to the response provided for Effective Date (3.1.1) and End Date (3.1.2), we are supportive of date only to be used for Early Termination, in format YYYY-MM-DD.

3.2.2 Direction

9. With reference to alternatives proposed for the data element “Direction”:

- (a) Are the advantages and disadvantages of proposed harmonisation alternatives included in the report appropriately defined? If not, which aspects should be revised and how?**
- (b) Which of the proposed harmonisation alternative should be supported and why? Under which circumstances would the alternative(s) be difficult to implement?**
- (c) Are the proposals sufficiently robust for transactions with multiple legs? With reference to Alternative 1, can the counterparty side (buyer/seller) clearly identify the parties paying each relevant payment stream? With reference to Alternative 2, is the payer of payment streams an applicable concept for all payment streams? Responses illustrated with worked examples where applicable would be appreciated.**

We agree in principle with the use of Alternative 1, with the approach to direction based on whether the counterparty is the Buyer or Seller.

However, we believe the existing ISDA tiebreaker logic which is used for UTI generation is effective as an indicator of Buyer and Seller to a transaction – this industry practice should be used as opposed to implementing any other framework. This already accounts for product specific scenarios, an example being the use of alphabetically sorted LEI to determine buying and selling party respectively for a Fixed/Fixed IRS transaction.

Yours faithfully,



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