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

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General comments on the report:

Dear Sirs,

IHS Markit is pleased to submit the following comments to CPMI-IOSCO in response to its Consultation Report on Harmonisation of Key OTC derivatives data elements (other than UTI and UPI) - second batch.

IHS Markit is a leading global diversified provider of financial information services. Founded in 2003, we employ over 4,000 people in 11 countries and our shares are listed on Nasdaq (ticker: INFO). IHS Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 150 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

Introduction

IHS Markit's derivatives processing platforms are widely used by participants in the OTC derivatives markets today and are recognised as tools to increase operational efficiency, reduce cost, and secure legal certainty. With globally over 2,000 firms using the various MarkitSERV platforms that process, on average, 90,000 OTC derivative transaction processing events per day they form an important element of the workflow, and also in supporting firms' compliance with several regulatory requirements across jurisdictions. Specifically, the MarkitSERV platforms facilitate the electronic confirmation of a significant portion of OTC derivatives transactions worldwide, submit them for clearing to 16 CCPs globally, and, for many counterparties, report their details to trade repositories ("TRs") in Europe, the United States, Canada, Japan, Hong Kong, Singapore and Australia.

On the basis of our derivatives processing activities we have been directly involved in data standardisation and improvement of data quality efforts of global regulators and the industry. We welcome the publication of the Consultation Report and we very much welcome regulatory and industry efforts that aim to ensure the consistent use of identifiers, including LEIs, UTIs, and UPIs, as well as other relevant data elements.

2.1 Reporting timestamp

Comments on the data element "reporting timestamp":

2.2 Execution timestamp

Comments on the data element "execution timestamp":

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?

We believe that the definition of final settlement date is not clear and additional language should be added to clarify the reporting of the final settlement date, for example, with regards to swaptions.

The final settlement date is defined as "The final contractual date on which a derivatives transaction will be or was settled, that is, the actual day (based on UTC) on which transfer of cash or assets is completed." It is not clear from this definition whether the settlement date for a physically exercised swaption would be the date when the swaption is exercised and the underlying swap is created (ie the trade date of the underlying swap or the effective date of the underlying swap) or the date on which the underlying swap is finally settled (the termination date of the underlying swap. Furthermore, even for cash settled Bermudan or American swaptions the final settlement date will not be known until after exercise. If CPMI-IOSCO require the final "possible" settlement date for these products initially followed by the actual settlement date upon final exercise then this should be clarified. Also for the same products where partial exercise and multiple exercises are allowed, there will be multiple settlement dates.

We would therefore suggest amending the definition of final settlement date to read "The final contractual date on which a derivatives transaction will be or was settled, that is, the actual day (based on UTC) on which *all* transfers of cash or assets are completed." This language would clarify that the final settlement date refer to the date all settlement arising under a contract is completed.

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

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?

Other comments on the data element "settlement currency":

2.5 Confirmed

Comments on the data element "confirmed":

2.6 Day count convention

Comments on the data element "day count convention":

CPMI-IOSCO has defined a list of allowable values for the Day Count Convention field. This list of allowable fields is not the same as being currently used in the industry as reporting standards. (5) We recommend that CPMI-IOSCO adopt the industry standard values for this field instead of the proposed codes. This will avoid firms having to undergo unnecessary build to map industry standard values to the proposed codes.

(5) Defined by 2006 ISDA Definitions which is implemented by the FPML coding scheme for Day Count Fraction:
http://www.isda.org/publications/isda2000def-annex-sup.aspx#2006defs
http://www.fpml.org/coding-scheme/day-count-fraction-2-2.xml

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?

(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?

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?

CPMI-IOSCO has proposed that the LEI should be used to identify Counterparty 2 and should be reported in the Counterparty 2 field. CPMI-IOSCO should be conscious that there are reporting regimes which do not mandate the use of an LEI for counterparties in-scope of the respective reporting regimes. In such cases, the obligation would be on Counterparty 1 (reporting counterparty) to ensure that the Counterparty 2 has an LEI which reporting counterparties cannot directly enforce.

Also, investment trusts are not legal entities and therefore cannot currently have an LEI. Therefore we propose that for counterparties without an LEI an alternative identifier be used. Currently various regulators have different hierarchies of identifiers that are acceptable, with the last resort being a full name. We would welcome a global standard hierarchy to be used across all regimes with LEI being the first identifier in this hierarchy. We would also welcome LEIs supporting branches.

(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?

(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?

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

2.13 Report-submitting entity

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

2.14 Broker of counterparty 1

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

2.15 Central counterparty

Comments on the data element "central counterparty":

2.16 Clearing member

Comments on the data element "clearing member":

2.17 Platform identifier

Comments on the data element "platform identifier":

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?

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)?

We do not understand what CPMI-IOSCO is attempting to solve for here; jurisdictional nexus remains a complex area with various regimes having different inputs including; book, desk, P&L, sales location and trader location. We believe further work is needed to harmonise jurisdictional fields as a group of fields.

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

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"?

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?

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”:

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?

CPMI-IOSCO’s proposed standards for reporting Option premium precludes reporting ‘Zero’ as an allowable value. We believe that it is possible for an Option to have a zero premium and as such CPMI-IOSCO should allow the field to be populated as Null or 0 even when the transaction type is an Option. For example, an option strategy with a net zero premium, or options created by novation where any premium would be payable between the original parties and then by the transferor and transferee upon novation leaving the new transaction between the remaining party and the transferee with no premium.

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

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":

Other comments: