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Submitted via email to cpmi@bis.org and upi@iosco.org

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CPMI-IOSCO Second Consultative Report on Harmonisation of the Unique Product Identifier

Dear Sirs and Mesdames,

IHS Markit (formerly known as “Markit”) is pleased to submit the following comments to CPMI-IOSCO in response to the Second Consultative Report on *Harmonisation of the Unique Product Identifier* (the “Consultative Report” or “CR”).

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions. Over the past years, we have submitted more than 150 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

I. Introduction

IHS Markit’s Reference Entity Database (“RED”) has been providing legally verified reference data across credit, loan, and fixed income asset classes to the industry. IHS Markit’s reference data for CDS has been servicing the credit OTC derivatives industry for more than a decade and is an integral part of credit workflows. The RED platform has two core components. First, there are Reference Entity Database Codes or “RED6 Codes.” The RED6 Code is a six-digit code that corresponds to a particular reference entity. Second, there is the nine-digit RED Pair Code or “RED9 Code” that is a nine-digit code representing a unique reference obligation with a corresponding reference entity. These RED6 Codes are market standards and are deeply embedded in the pre- and post-execution credit trading workflows. These identifiers are also widely used in risk analytics,

pricing and valuations, trade confirmations, electronic trading, clearing, settlement and trade allocations.

IHS Markit appreciates the challenges authorities face in aggregating OTC derivatives data reported across trade repositories (“TRs”) and is supportive of the efforts of various regulatory bodies, including the Harmonisation Group, in achieving a global solution to uniquely identify OTC derivative products and transactions. To this effect, IHS Markit has engaged with regulators and industry associations to arrive at a comprehensive solution:

- IHS Markit is a participant in the ISDA Symbology Governance Committee (“SGC”) that is “aimed at developing an open-source standard OTC derivatives product identification system that can be applied consistently and comprehensively across all OTC derivatives facilities”¹ to agree on a product identifier solution for credit derivative products;
- IHS Markit has previously proposed a global credit UPI solution that leverages its existing RED service to the ISDA SGC, the industry more broadly, and several regulatory authorities; and
- IHS Markit has closely followed and participated in the dialogue regarding OTC derivatives data and has responded to consultations issued by the FSB², CPMI-IOSCO,³ including the First Consultative Report on the Harmonisation of the Unique Product Identifier,⁴ and CPSS-IOSCO,⁵ as well as national authorities.

IHS Markit has significant experience in providing identifier codes and reference data to the industry for a number of years and has developed a deep understanding of the processes and systems relying on such identifiers. Given that the RED6 Codes are deeply embedded in credit workflows, we have also gained first-hand experience of the operational and implementation challenges that are likely to face the industry when adopting a harmonised Unique Product Identifier (“UPI”). We present our latest thoughts on a credit UPI below. When referencing “reference entity” or “reference entities” below, we include reference indices as well unless otherwise specifically provided.

II. Executive summary

As described in further detail below, we opine that, among other things:

¹ See ISDA's Symbology initiative, Sept. 17, 2015, <http://www2.isda.org/news/isda-launches-new-industry-initiative-for-a-derivatives-product-identification-standard>.

² Markit comment letter re Financial Stability Board's Aggregation Feasibility Study, Feb. 28, 2014, <https://www.markit.com/Company/RegulatoryResponsesFile?CMSID=7856499bdd534994810ad25f5561ba58>

³ Markit comment letter re CPMI-IOSCO's consultative report on Harmonisation of the Unique Transaction Identifier: <https://www.markit.com/Company/RegulatoryResponsesFile?CMSID=163ac5df1fe4481892acff417353dfeb>

Markit comment letter re CPMI-IOSCO consultative report on harmonisation of Key OTC derivatives data elements (other than UTI and UPI) – first batch, Oct. 9, 2015, <https://www.markit.com/Company/RegulatoryResponsesFile?CMSID=1a2ae155692d48dfbdaa1e488d77e3cb>.

⁴ Markit comment letter re CPMI-IOSCO Consultative Report on Harmonisation of the Unique Product Identifier, Feb. 24, 2016, <https://www.markit.com/Company/RegulatoryResponsesFile?CMSID=c9bd439f0c5248ccbdd79e9d8e74c429>.

⁵ Markit comment letter re CPSS-IOSCO's consultative report on OTC derivatives data reporting and aggregation requirements, Sept. 23, 2013, <https://www.markit.com/Company/RegulatoryResponsesFile?CMSID=97f8a389cc1c40d2b258b23e7a3fa6db>.

- IHS Markit RED is the most suitable reference entity source for credit derivatives because alternatives such as LEI or ISIN lack the Precision and Comprehensiveness for trading and settlement purposes and it ensures Compatibility with existing credit workflows, minimizing the cost of transition.
- In order to ensure that the unique features of the RED database accrue to the public to the maximum extent commercially practicable, we would recommend either (1) a public use licensing approach whereby RED could be used for regulatory post-trade purposes or (2) permitting RED licensees to access a private level of reference entity data derived from the RED database, alongside a non-proprietary reference entity source identifier delivered through the UPI distribution mechanism.
- The Harmonisation Group should avoid overbroad prohibitions on proprietary metadata (e.g., reference entity data, benchmarks, and indices) and adopt a consistent approach for all such metadata that balances transparency, intellectual property rights, and financial innovation.
- A dummy code⁶ would be most appropriate for the credit UPI because it would, among other things, allow for multiple reference entity sources, consistent with the Adaptability principle. An intelligible code would only be recommended for credit derivatives if it relied on a reliable, Precise and Comprehensive, underlier source, i.e. RED for credit derivatives.

III. Discussion

a. Request for comment questions

Question 4: How should underlying assets and reference entities be represented in the UPI 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?

Currently, credit market participants rely primarily on RED codes for reference entity and obligation data. We believe IHS Markit RED is the most suitable reference entity source for credit derivatives because alternatives such as LEI or ISIN lack the precision and Comprehensiveness to trade and settle credit derivatives as further set out below. Moreover, because RED codes are the current credit market standard, a UPI based on RED codes ensures maximum Compatibility with existing workflows, minimizing the cost of the transition to UPI-centered environment.

First, LEIs lack the Precision demanded by market participants to trade and settle CDS.

⁶ “A UPI code could be either a “dummy code” or an “intelligent code”. A “dummy code” is defined as a code whose content has no inherent meaning: the meaning is contained only in the associated reference data. A UPI code system using dummy codes would therefore require reference data where UPI codes could be looked up to reveal the characteristics of the OTC derivative product having a particular UPI code.” CR at 20.

Whilst the LEI database is extending into an ever growing list of entities, resulting in the issuance of more LEIs, the onus is and remains on the LEI *holder* to submit corporate changes - which may or may not happen promptly, and is least likely to occur around the most important moments in the credit markets (i.e. at the time of credit events). As such, LEIs are not updated as frequently as the RED database, and could lead to potential latency issues whereby market participants confirm a CDS contract on one legal entity name and an obligation pairing but then report an inaccurate risk position to a regulator.

In contrast to LEIs, RED takes account of and reflects the current corporate status of a reference entity. Corporate actions can affect a reference entity's status, e.g., mergers and acquisitions, rights issues and spin offs, successions, renames, dissolutions, de-mergers, credit events, etc. IHS Markit RED6 Codes are continuously updated and monitored to account for these activities. IHS Markit is able to leverage its extensive Corporate Actions reference data service to update the metadata associated with a particular RED6 Code.⁷

Second, LEIs lack the comprehensiveness needed by market participants to trade and settle CDS. IHS Markit's RED database covers the universe of reference entities actively used in credit derivatives, containing approximately 14,000 reference entities that have had trades placed on them in the past 12 years. Of these, 10,000 are monitored by RED customers ("Active REDs") and approximately one-third of these Active REDs has an LEI today (we expect this population to increase but with limits). Of the Active RED population, there are approximately 890 credit indices (including structured credit indices) that do not have LEIs. 121 sovereign reference entities are also Active REDs but do not and are unlikely to ever have LEIs. In addition, 887 reference entities are either special purpose vehicles, trusts, or other non-trading entities (primarily corporates). In short, over 19% of the Active REDs are highly unlikely to ever obtain LEIs.

ISINs are also an inadequate substitute for RED for market participants. Identifying a CDS product for trading and settlement purposes requires several critical fields including reference entity, reference obligation (tier of debt), maturity, currency and doc clause. ISIN codes do not, among many other things, uniquely identify a reference entity or reference entity-obligation pair. In addition, with respect to Precision, it is our understanding that ISINs issued by a national numbering agency ("NNA") may not be subject to the same processes used in the RED database to ensure the Precision and Comprehensiveness of reference data to the degree necessary for CDS trading and settlement.

In order to ensure that the Precision and Comprehensiveness that are unique features of the RED database accrue to the public to the maximum extent commercially practicable, we would recommend the following (non-exclusive) options to the Harmonisation Group:

⁷ IHS Markit "validates data through an intricate and precise process of consolidating, researching and validating announcement information. Through this validation process, we enhance vendor records and resolve conflicting information to provide customers with a single golden corporate action record. The service offers a low-cost entry point to the comprehensive and high quality data once only available to those who subscribed to multiple, expensive data sources." IHS Markit Corporate Actions, <https://www.markit.com/Product/Corporate-Actions>.

1. A public use licensing approach whereby RED could be used for regulatory post-trade purposes. Permitted uses would include a market observer's use of a credit UPI based on RED to understand with Precision the reference entity associated with a particular transaction that was reported on a public ticker pursuant to post-trade regulatory requirements. We believe this licensing approach is consistent with existing regulatory standards. Depending on the workflow the UPI ultimately uses, the delivery of RED under this approach would be either free or based on some cost-recovery model.
2. If the Harmonisation Group seeks to impose a blanket prohibition against any proprietary reference entity identifier for credit derivatives (or proprietary metadata more generally), the Group should permit market participants with RED licenses to access RED inside a UPI. In other words, there would be two access levels to the credit UPI: (1) a public level of access that does not include RED and uses some other source's identifiers, e.g., LEI, and (2) a private level of access that would be available to those with the appropriate licenses to the RED database that would include reference data from a second reference entity source: RED. This approach would ensure that the UPI becomes useful for firms that demand the level of Precision and Comprehensiveness that a commercial reference data product can provide.

If the Harmonisation Group fails to adopt either (or both) approaches, then the UPI would be unlikely to be used by market participants other than as needed to fulfil regulatory requirements. This would reduce the market discipline needed to ensure data quality, further deterring reliance on the UPI, and therefore leading to a state of affairs that could be judged a failure of the UPI initiative.

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.

So long as there is clear responsibility for making this identification, there should not be insurmountable barriers to indicating the source of the identifier for the underlier.

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.

Public disclosure of proprietary benchmarks and indices, especially their constituents and weightings and methodology could be a violation of some existing licensing agreements and if those licensing agreements are superseded by regulation, that would have serious negative consequences for financial innovation. These issues could be addressed by limiting access to these proprietary benchmarks and indices for those with the appropriate licensing arrangements, including the appropriate RED license.

The Harmonisation Group should avoid overbroad prohibitions on proprietary metadata (e.g., reference entity data, benchmarks, and indices) and adopt a consistent approach for all such metadata that balances transparency, intellectual property rights, and financial innovation. There is no reason to distinguish between proprietary benchmarks and indices and proprietary reference entity sources: both involve continuous investments of capital and labor that are made with the expectation of intellectual property protection.

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?

A dummy code would be most appropriate for the credit UPI because it would, among other things, allow for multiple reference entity sources, consistent with the Adaptability principle. A dummy UPI code would enable the use of multiple underlier sources that could mitigate the data quality concerns that might come into being if the UPI ultimately relies on non-proprietary sources. The flexibility associated with a dummy code would be consistent with the Adaptability principle by enabling the UPI to adapt “swiftly to market changes and innovations, including the introduction of new OTC derivative products.”⁸

An intelligible code would only be recommended for credit derivatives if it relied on a reliable, Precise and Comprehensive, underlier source, i.e. RED for credit derivatives. In this case, credit derivative products can be expressed through a string of intelligible characters that would include the RED code. As discussed above in our answer to Question 4, this would only be commercially practicable if the Harmonisation Group endorses a public use licensing regime for RED.

We hope that our comments are helpful to CPMI-IOSCO. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. In the event you may have any questions, please do not hesitate to contact Salman Banaei at salman.banaei@ihsmarkit.com or [+1 347.324.8818](tel:+13473248818).

⁸ CR at 8.