

29 September 2016

To: Secretariats of CPMI and IOSCO

Ref.: Second consultative report – Harmonisation of the Unique Product Identifier

Dear colleagues,

We write to you in our capacity as co-chairs of the Standards Advisory Group (SAG) of Technical Committee 68 of ISO (ISO/TC68/AG2). As you know, the SAG aims to provide a conduit for engagement between the financial regulator community and ISO with regard to the use of standards in the financial services sectors.

We take the opportunity of this consultative report to confirm our belief that the work conducted by ISO/TC68, and notably through its sub-committee 4 (Securities & Related Financial Instruments), is complementary to the work of the CPMI/IOSCO Harmonisation Group on UPI. From our role and experience, we recommend the CPMI/IOSCO to consider that the UPI should be defined with such a way it serves both regulatory and market purpose on the long run.

Since the meeting you organised in Toronto in July with the market community, we are already engaged in a dialogue with the co-chairs of the CPMI/IOSCO Harmonisation Group and of the FSB Group on UTI and UPI Governance. As you know, works have been undertaken by ISO/TC68/SC4 for the fast issuance of ISIN and CFI for OTC derivatives. We would recommend that this work is well taken into account and used in the context of the UPI guidance definition.

Furthermore, we would like to propose some answers to selected questions from your consultation report, as we feel the experience of ISO members in standards can be of help in the progress of your work.

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

We would like to comment about the use of such a value from a general point of view. As our experience with ISO 10962 shows, it is useful to offer a solution for cases where attributes are either unknown or not fitting with any of the existing domain values.

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?

We think that if an OTC derivative has several underlying assets, an ISIN number should be created for the “basket” and included into the reference data, whereby the UPI would make reference to this underlying basket and not to its components. We do not think that it is necessary to include the weights in the UPI reference data since such weights are subjects to frequent variations.

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 suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

ISINs and LEIs are widely used international open standards (ISO 6166 and ISO 17442 respectively) and adaptable to meet market needs. As such, we believe these provide the most appropriate mechanisms to represent underlying assets and reference entities.

The ISIN should be used if identification of the specific underlying security is needed rather than just the issuer. The ISIN is suitable not only for the full range of financial instruments, but also for indices. By contrast, ISIN codes are not appropriate to identify corporates and other organizations.

Reference entities, including investment and mutual funds (where reference to the fund entity is required), should be identified using an LEI.

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.

We do not see any technical obstacle to including the source of the identifier. Indication about the used standard or proprietary code is helpful to clarify any question relating to the relevant instrument.

In the case the underliers are identified by means of ISIN, it would even be helpful to indicate the relevant national numbering agency.

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.

For the sake of clarity, we would want to indicate that the term “dummy code” is often used in a sense that it is a provisory, non-official code. For instance, when an immediate assignment of ISIN is not possible due to a temporary lack of reference data, certain numbering agencies assign a dummy-ISIN that gets replaced by an official ISIN once the reference data is available. In contrast to the above-mentioned meaning, we understand that question 7 relates to the level of intelligence embedded in a code, a “dummy”-code not bearing any intrinsic meaning, as a matter of fact and for the sake of clarity we do recommend the use of unintelligent or “dumb” code instead.

We think that the UPI should be used as a dumb code (without embedded intelligence) for practical reasons. Firstly, the information contained within an intelligent code would be redundant with the relevant reference data set. Secondly, intelligent codes may lead to difficulties due to potential changes of their components. Intelligent codes are also more restrictive than dumb codes with regard to the total number of codes that can be assigned. In addition, the use of intelligent code may put at stake the “persistence” principle. When the intelligence’s underlying principles change, the code changes and there is no possibility to assure that the exact same code can persist over the life of a product.

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 answer to this question depends on two variables: the level of intelligence in the code and the persistence of the code:

- As mentioned above, the more intelligence a code bears, the longer should be its structure in order to allow for enough flexibility. The length of a code is of course dependant on its nature and its purpose, and there is no a-priori optimal length of a code. However, for the case at stake and within a model of a dumb code, we think that a 12-digits structure would seem appropriate, as it is both easily manageable and enough flexible.
- The second variable is the persistence of the codes. The more often numbers are subject to change, the more space is needed for a constant overall coverage.

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?

We recommend using a dumb code (see Question 7).

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?

A check digit would be helpful, as it offers a possibility to check the accuracy of a code and ensures its integrity. Although we do not support the use of intelligent code, we confirm this mean of validation would be useful for both dumb and intelligent codes.

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?

We do believe that UPI codes should be of a uniform length. This, indeed, would constitute a first level of validation. Codes with variable lengths are more exposed to potential errors when manually manipulated. Moreover, a fixed length is part of the identity of the code, which is easily recognizable.

We hope you will find these considerations and answers helpful, and look forward to the continuous dialogue engaged between us, with a view to the successful conclusion of the definition of a UPI that will serve the market and the regulatory purposes.

With our best regards,

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