GYG/28/H28
February 24, 2016

Comments on the Consultative Report: *Harmonisation of the Unique Product Identifier*, issued by the Committee on Payments and Market Infrastructures and the Board of the International Organization of Securities Commissions

Japanese Bankers Association

We, the Japanese Bankers Association ("JBA"), would like to express our gratitude for this opportunity to comment on the consultative report: *Harmonisation of the Unique Product Identifier*, issued on December 17, 2015 by the Committee on Payments and Market Infrastructures ("CPMI") and the Board of the International Organization of Securities Commissions ("IOSCO"). We respectfully expect that the following comments will contribute to your further discussion.

[General Comments]

We would like to express our support and respect for the work on harmonisation undertaken mainly by CPMI and IOSCO amid situations where OTC derivatives data are being reported based on different definitions and formats across jurisdictions.

While the consultative report presents many proposals and questions regarding the UPI from a technical point of view, the following aspects, in addition to such a technical point of view, should also be fully considered as being expressed by participants in the Workshop of CMPI-IOSCO WG Harmonisation of key OTC derivatives data elements held in Basel in March 2015.

(i) Burdens in practice and costs for regulatory compliance (including the transfer of costs at trade repositories (TRs)) to be incurred by private financial institutions, i.e. the reporting entity
(ii) The level of effectiveness of risk management by authorities to be achieved by harmonisation relative to associated costs (including those incurred by the private sector)
(iii) Narrowing down action to be taken and setting of timelines that would not impose an excessive burden on the reporting entity by also taking into account the above (i) and (ii)

Further, as most of IRSs and CDSs are centrally cleared and other derivatives products will become subject to the margin requirements for non-centrally cleared derivatives, counterparty risk and price fluctuation risk are managed at a sufficient level. These rules, combined with tightening of national financial regulations in each jurisdiction, have considerably mitigated risks inherent in the financial system. As a result, the required level of TR's data aggregation has changed. CPMI and IOSCO are requested to consider cost effectiveness in light of such circumstances and design a simpler and more realistic regulation.

Our comments on the consultative report are provided hereinafter from a practical point of view in the capacity of a private financial institution, the reporting entity. CPMI and IOSCO are requested to limit aggregation of transaction data which each authority truly needs, and then to discuss this matter so that minimum actions would be required for regulatory compliance.

[Specific Comments]

Out of questions 1 to 16 presented in the consultative report, we would like to comment on the questions 4, 7, 9 and 12, and would appreciate your consideration.

1. **Question 4:**

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

(Our comment)

A sufficient lead time should be provided if data elements for representing package trades are added.

(Rationale)

An approach to require reporting of Link ID instead of allowing reporting of package trades on a leg basis is reasonable. When implementing such a requirement, it would be preferable to consider providing reporting entities with a sufficient period of time needed for system development and operational changes.

2. Question 7:

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

(Our comment)

In developing new UPI rules, CPMI and IOSCO should respect the existing standards, such as the current ISDA Taxonomy, as much as practical.

(Rationale)

Given that the ISDA Taxonomy is already widely used for the UPI, it would be preferable in terms of cost and efficiency to make best use of the existing UPI framework.

3. **Question 9:**

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?

(Our comment)

We support the use of an "Other" category.

(Rationale)

Considering transaction volume and compliance cost, it is assumed that there may be cases where benefits do not outweigh such costs in establishing more precise UPI definitions for exotic derivatives.

In considering a more precise UPI definition, its costs and benefits should be sufficiently analyzed. As a result, it would be concluded that benefits are not expected to justify costs and, therefore, preferable to allow the "Other" category.

4. **Question 12:**

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)?

(Our comment)

The classification system should not include an identifier for the underlier.

(Rationale)

Exposures to counterparties vary depending on underliers. However, taking into

consideration the fact that a consistent identifier for underliers will need to be established as mentioned in the consultative report and that exposures can be captured through other data elements, we do not consider it is necessary to include an identifier for underlier in the classification system from the perspective of overall cost effectiveness.