

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

Respondent name:	Japanese Bankers Association
Contact person:	Ryutaro Hatashita
Contact details:	ryutaro_hatashita@zenginkyo.or.jp

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General comments on the report

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the consultative report: Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) - third batch, issued on June 27, 2017 by the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO).

We would like to express our support for the work on harmonisation of OTC derivative data elements mainly led by the CPMI-IOSCO to establish a stable and effective framework amid situations where data elements are being reported based on various definitions and formats across jurisdictions.

In light of this, before introducing and establishing a framework, we respectfully request the CPMI-IOSCO to give due consideration to implement minimum requirements so as to avoid any undue cost being imposed on financial institutions such as for systems development.

The following comments are provided from practical viewpoints as a reporting party of OTC derivatives transactions data, based on the current practices established in financial institutions. We expect that our comments will be fully considered in your further discussions on this issue.

Data elements to be reported should be narrowed down to those necessary for supervision by national authorities, thereby avoiding excessively complicated reporting.

The more the number of data elements has to be reported and the more complicated the contents of the reports become, the reports would vary in quality depending on reporting entities, leading to a reduction in accuracy of data collected at swap data repositories (SDRs). We believe that identifying and narrowing down data elements to those necessary for supervision by national authorities would improve accuracy of reporting data, and, as a result, more useful and informative inputs would be provided to authorities.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

2.2 Collateral portfolio code

Q1: With reference to the alternatives proposed to capture information on portfolio code(s) (Section 2.2):

- (a) In your view, how prevalent is the situation in which different transactions concluded under the same Master Agreement are associated with different CSAs (for initial margin posted, initial margin received and variation margin)?

- (b) The definition proposed in Alternative 1 is based on the assumption that, in the event of default, the entirety of the collateral provided under the given Master Agreement would be used to cover the loss of the non-defaulting counterparty, whether or not separate CSAs (for initial margin posted, initial margin received and variation margin) might be linked to that Master Agreement and whether or not all the transactions concluded under that Master Agreement would be associated with each of these CSAs. Is this assumption correct? If not, please clarify how the respective obligations would be resolved in the case of default. Please provide examples.

(c) Are the differences in authorities' use of the two alternatives clearly illustrated in Table 2?

(d) Which of the proposed harmonisation alternatives should be supported and why?

Other comments on the data element "Collateral portfolio code":

2.3 Portfolio containing non-reportable component

Comments on the data element "Portfolio containing non-reportable component":

We assume that situations where a response to this is "Yes" (i.e., there are cases where OTC derivatives transactions covered by collateral is not reported) would increase. Therefore, the usefulness of including this in the data elements should be carefully considered by taking into account costs arising from reporting this element.

(Rationale)

In some jurisdictions, authorities to be reported differ depending on the type of transactions (securities-related derivatives/interest-rate-related derivatives), or some OTC transactions are not included in the scope of covered products (e.g., FX-related derivatives). Therefore, there would be a considerable number of cases where OTC derivatives transactions covered by collateral are not included in the scope of reporting.

2.4–2.28 Data elements related to margins

Q2: The purpose of the data element "Initial margin settlement timing" (Section 2.10) is to allow authorities to better understand the difference between "Initial margin required to be posted by the reporting counterparty" (Section 2.17) and the "Initial margin posted by the reporting counterparty" (Section 2.5) as this difference may be due to the timing of when the required margin is determined and when the margin is posted. In the absence of information on the margin settlement timing, the difference in the margin required and margin posted amounts could be interpreted as over- or under-collateralisation. Information on the settlement timing of margin collected would serve the same purpose for global aggregation of initial margin collected (Sections 2.8 and 2.19).

- (a) Are there challenges linked to the data element "Initial margin settlement timing" as defined above? Is there an alternative, more effective, way to represent this information, such as the date on which the initial margin posted (or collected) has been settled?

- (b) How prevalent is the existence of different settlement timings (T+0, T+1, T+2, T+3) within a given jurisdiction? Would the settlement timing for the initial margin posted differ from the one for initial margins collected?

Other comments on the data elements related to margins:

The definition of “margin required to be collected/posted” (Sections 2.17-2.24) should be clarified. Moreover, the usefulness of reporting these elements should be sufficiently assessed from cost and benefit perspectives.

(Rationale)

It is unclear whether “margin required to be collected/posted” refers to “margin which is already agreed with a counterparty but has not yet been transferred,” or “the amount that needs to be called (margin calls) to a counterparty based on the calculation by reporting party.”

Furthermore, differences exist in regulatory requirements related to settlement timing of collateral (e.g., T+0, T+1, T+2) across jurisdictions. In addition, the base time for reporting is not harmonised across jurisdictions mainly due to time differences, different national holidays, and different transaction reporting deadline defined by respective jurisdictions. Given these situations, it appears that sufficient assessment has not been carried out to ensure that benefits of reporting such detailed elements as “margin required to be collected/posted” in addition to the data elements of margin already collected/posted, would justify its costs.

2.29 Indicator of intraday variation margin calls

Comments on the data element "Indicator of intraday variation margin calls":

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

2.31–2.35 Data elements related to counterparty rating trigger

Q3: With reference to the data elements "Counterparty rating trigger indicator", "Counterparty rating threshold", "Incremental collateral required", "Threshold rating for automatic termination provision" and "Closeout payment for automatic termination provisions" (Sections 2.31–2.34):

- (a) For each alternative of the data element "Counterparty rating trigger indicator", do definitions and allowable values accurately reflect provisions contained in collateral agreements or master agreements covering OTC derivative transactions to protect parties from counterparty credit deterioration? How prevalent currently are counterparty collateral rating triggers or comparable automatic-termination provisions in collateral agreements or master agreements? How, if at all, have recent changes to market practices affected the

prevalence or the form of counterparty collateral rating triggers or comparable automatic termination provisions?

- (b) Are the advantages and disadvantages of the proposed harmonisation alternatives of the data element "Counterparty rating trigger indicator" appropriately defined? If not, which aspects should be revised and how? Which of the proposed harmonisation alternatives should be supported and why?

Q4: With reference to the alternatives proposed for the data element "Counterparty rating threshold" (Section 2.32):

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

- (b) Which of the proposed harmonisation alternatives should be supported and why?

Q5: The definition of the data element "Incremental collateral required" (Section 2.33) relies on the assumption that the effects of multiple-notch downgrades are roughly linear. Are there instances in which the effects increase more than linearly with the number of notches in a hypothetical downgrade? If so, how could multiple scenarios be encompassed in the definition?

Other comments on the data elements “Counterparty rating trigger indicator”, “Counterparty rating threshold”, “Incremental collateral required”, “Threshold rating for automatic termination provision” and “Closeout payment for automatic termination provisions” (Sections 2.31–2.35):

It should be noted that reporting of data elements related to counterparty rating (Sections 2.31–2.35) would require a considerable amount of time.

(Rationale)

Incremental collateral and automatic termination provision which reflects a credit rating of a counterparty specified in Sections 2.31–2.35 are items set out in agreements such as ISDA Master Agreement and Credit Support Annex (CSA). In many cases, however, data is not retained in an electronic form. If these items are included in reporting data elements, entities need time to convert existing data to reportable electronic data.

2.36 Clearing obligation in the jurisdiction of the reporting counterparty

Comments on the data element “Clearing obligation in the jurisdiction of the reporting counterparty”:

For the data element, “Clearing obligation in the jurisdiction of the reporting counterparty,” we suggest revising this to “Centrally cleared transaction,” or allowing reporting this item instead, provided that the supervisory objective can be met.

(Rationale)

It is necessary for a reporting party to properly identify not only its own legal status but also that of its counterparty and establish a complicated assessment logic in order to appropriately report “whether the reported transaction belongs to a class of OTC derivatives that has been declared subject to the clearing obligation.”

To address complicated cross border transactions, regardless of whether central clearing is mandated by laws and regulations, there is also market practice to clear transactions qualifying for central clearing through central counterparties (CCPs). Given this, we suggest considering the revision to the element “Clearing obligation in the jurisdiction of the reporting counterparty” to “Centrally cleared transaction,” or allowing alternatively reporting this item.

2.37–2.41 Data elements related to “Price”

Q6: With reference to the data element “Price” (Section 2.37), are there OTC derivative transactions products where the price or a concept of price is not captured under the “Price” data element or any other data element including “Fixed rate”, “Spread”, “Strike price”, “Option premium” and “Other payment type (upfront payment)”? If so, please provide detailed examples of those products. Would the industry benefit from additional guidance for the “price” data element?

Q7: With reference to the data element “Price notation” (Section 2.40), is it clear and unambiguous which price notation (amount or percentage) should be applicable to each price? If not, which ones? Are there additional price notations that should be allowed? If so, which ones? Would the industry rather benefit from additional guidance for the “price notation” data element?

Q8: With reference to the data element "Price unit of measure" (Section 2.41):

- (a) Can commodity derivatives be negotiated in different unit of measures for the price and quantity? If so, would industry support two separate data elements for the (1) Price unit of measure and (2) Quantity unit of measure?

- (b) The list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.
 - (i) Are the values useful for reporting the Quantity Unit of Measure and the Price Unity of Measure?
 - (ii) If not, which ones are less useful and why?
 - (iii) Are there other values that should be added? Which ones, and why?
 - (iv) Are there duplicates or similar values that should be removed?

Other comments on the data element "Price", "Price schedules", "Price currency", "Price notation" and "Price unit of measure":

2.42–2.50 Data elements related to "Fixed rate", "Strike price" and "Option premium"

Q9: With reference to the data element "Spread notation" (Section 2.45), is it clear and unambiguous which notation (amount or percentage) should be applicable to each spread? If not, which ones? Are there additional spread notations that should be allowed? If so, which ones? Would the industry benefit from additional guidance for the "spread notation" data element?

Other comments on the data element "Fixed rate", "Spread", "Spread currency", "Spread notation", "Strike price", "Strike price currency", "Strike price schedules", "Option premium", "Option premium payment date":

2.51–2.52 Data elements related to "Exchange rate"

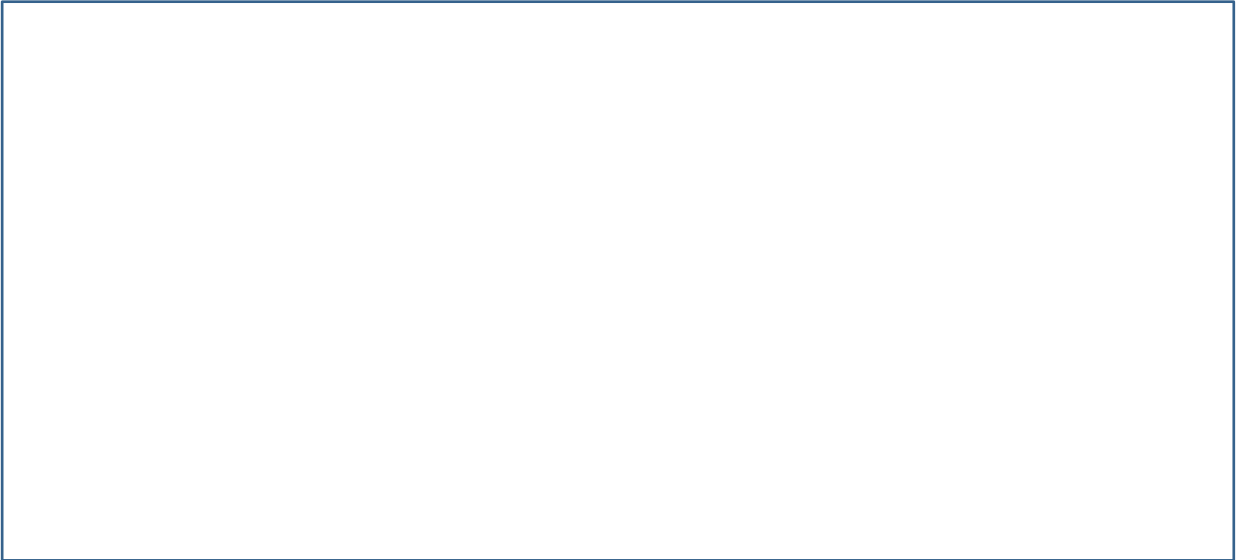
Comments on the data element "Exchange rate" and "Exchange rate basis":

2.53–2.54 Notional amount and Notional amount schedules

Q10: With reference to the data element "Notional amount" (Section 2.53), are there particular cases where the notional amount may not always be known when a new transaction is reported and may be updated later? If so, which ones?



Other comments on the data element "Notional amount" and "Notional amount schedules":



2.55–2.57 Data elements related to “Total notional quantity”

Comments on the data element “Notional quantity schedules”, “Total notional quantity” and “Quantity unit of measure”:

2.58–2.63 Data elements related to “Other payments”

Comments on the data elements “Other payment amount”, “Other payment type”, “Other payment currency”, “Other payment date”, “Other payment payer”, “Other payment receiver”:

2.64–2.71 Data elements related to “Packages”

Q11: With reference to the data element “Package trade price” (Section 2.66), could it be agreed that two possible situations may arise: (i) a package price does exist because all the transactions that represent individual components of the package are priced jointly, or (ii) a package price is not available because all the transactions that represent individual components of the package are priced individually? Is more clarity needed regarding the reporting of “Package trade price” and prices of individual components?

Other comments on the data elements “Package ID”, “Package trade price”, “Package containing non-reportable components”, “Package trade price currency”, “Package trade price notation”, “Package trade spread”, “Package trade spread currency” and “Package trade spread notation”:

2.72 Prior UTI

Q12: With reference to the data element “Prior UTI” (Section 2.74), how is “Prior UTI” represented when clearing and allocation happen at the same point in time? And how is “Prior UTI” represented when clearing

and compression happen at the same point in time, as a single event? Do such cases of clearing and compression and clearing and allocation as a single event happen frequently?

Other comments on the data element "Prior UTI":

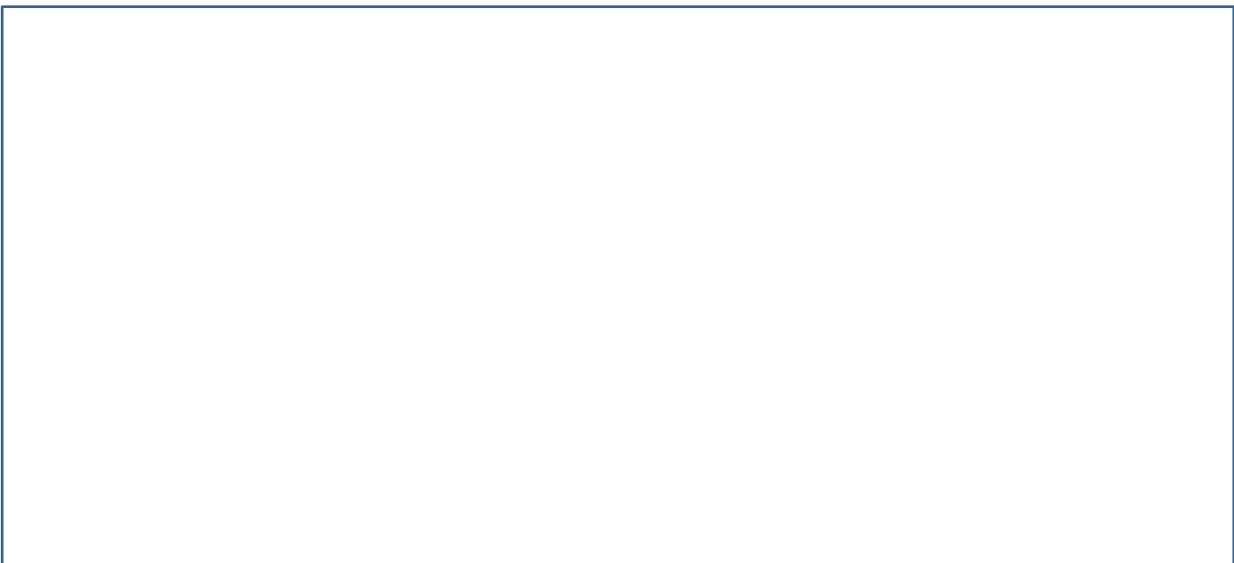
2.73–2.77 Data elements related to "Custom baskets"

Q13: With reference to the data element "Basket constituents unit of measure" (Section 2.74) the list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit Of Measure Code and four additional values.

- (a) Are the values useful for reporting the "Basket constituents unit of measure"? If not, which ones are less useful and why?

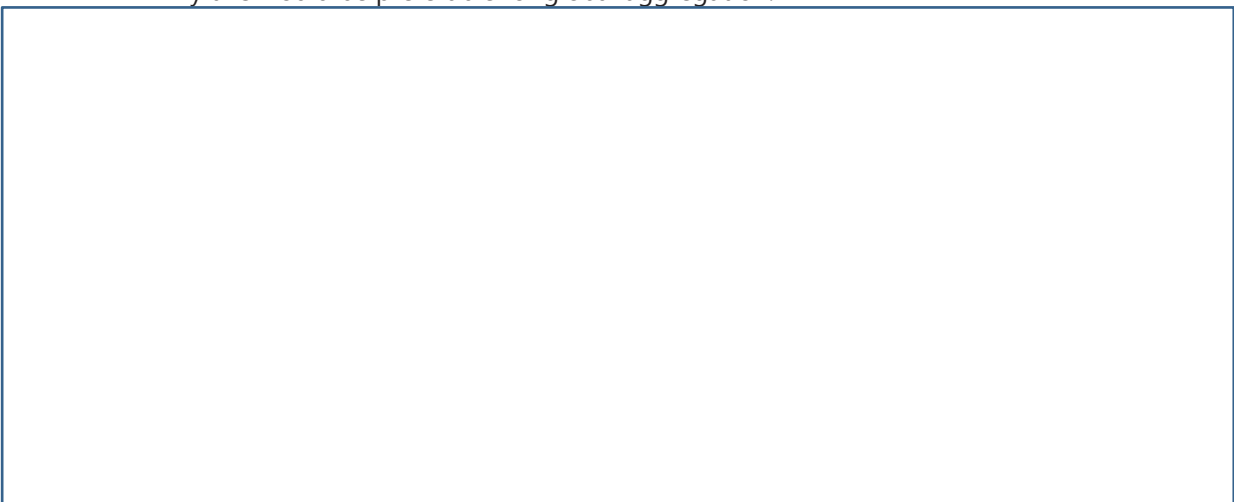


(b) Are there other values that should be added? Which ones, and why?



Q14: With reference to the data element "Custom basket code" (section 2.75)

(a) would it be preferable to separate the information on the LEI of the basket issuer and the unique alphanumeric code assigned by such issuer to the custom basket? If so, please explain why this would be preferable for global aggregation.



- (b) are there types of custom basket for which the "issuer of the custom basket" is not clear? If so, please provide detailed examples of those custom baskets. Would the industry benefit from additional guidance for the term "issuer" in the "Custom basket code" data element?

- (c) are 52 alphanumeric characters after the LEI of the basket issuer enough?

Other comments on the data elements related to custom baskets:

Other comments