



London Stock Exchange Group Response to the second CPMI – IOSCO Consultative report on Harmonisation of the Unique Product Identifier

London Stock Exchange Group (“LSEG”) supports the aim of the CPMI-IOSCO Harmonisation Group to enable the consistent global aggregation of derivatives transaction data. We also agree that instrument identification and classification are essential components in facilitating this aggregation. We would like to highlight the following points to CPMI-IOSCO:

- **Differentiation between identification and classification**

We have previously stated that we disagree with the concept that a single data element can both identify and classify a derivative. Whilst the roles of identification and classification are linked, they are designed for different purposes. ‘Identification’ uniquely identifies an instrument whilst ‘classification’ describes the attributes of that unique instrument the UPI to be the identifier for an instrument that has an associated classification. However, the consultative report still proposes to embed elements of classification into the UPI. This is unnecessary and compromises the integrity of the identifier.

As a case study, the use of the Aii (Alternative Instrument Identifier) for MiFID transaction reporting demonstrates the dangers of “intelligence” being built into an instrument identifier. The resulting code, of differing lengths, was extremely complicated for firms to populate correctly and proved impossible for the regulators to validate or decipher. Most importantly, it did not result in a unique product code for a derivative. We strongly suggest that this is thoroughly examined and the appropriate lessons learnt.

- **OTC derivatives should not be examined in isolation from other financial instruments**

We believe that harmonisation of data elements is not exclusively relevant to OTC derivatives. We understand the mandate of CPMI-IOSCO, but would encourage broader and more holistic thinking. This is also supported by market evolution and increasing movement of OTC derivatives onto exchanges and electronic platforms.

Harmonisation of data elements to allow the aggregation of data is crucial to understand risks within the financial system. However, risks in the financial system do not revolve solely around OTC. Uniform identification and classification schemes are required across the whole range of financial instruments in order to understand the inherent risks. We question aggregating OTC derivatives transaction data separately from ETD transaction data. Additionally, if there are no efforts to understand how derivatives are hedged with cash instruments, then overall risk exposure cannot be determined.

- **Maintain consistency with international standards**

We previously argued that there is already a proven scheme for the identification of financial instruments – the ISO-6166 International Securities Identification Number (which is widely used for identifying derivatives as well as cash securities). We strongly believe that there is no



need to re-invent the wheel for instrument identification. Whilst we recognise the diversity of OTC derivatives, we don't believe they are sufficiently different to warrant a separate identification scheme. The ISO 6166 standard has proven robust over many years and it is already being used as an identifier for some OTC derivatives.

Question 1: Do you believe that the data elements within each asset class described above are appropriate? Why or why not? If there are additional subcategories that you believe should be included for one or more asset classes, please describe them and discuss why you believe they should be included.

We note that one of the core aims of the CPMI-IOSCO work stream is to bring harmonisation to standards to enable the meaningful comparison of derivatives captured in trade repositories. We are concerned therefore that the table of data elements presented is, in effect, creating a new financial instrument classification scheme. Since there is already a globally accepted classification of financial instruments scheme in place (CFI – ISO 10962), we are deeply concerned that the work of the CPMI-IOSCO proposal creates an alternative to the existing ISO standard and will actually hamper the abilities of authorities to assess systemic risk. We strongly believe that the work on creating a standard for the UPI should go hand in hand with work on a global financial instrument classification scheme. Since the globally accepted CFI is already in place, after many years work involving many interested parties, we believe that the ISO 10962 should be used as the basis for the data elements determining the UPI.

We believe there are fundamental issues with the data elements presented in the paper. For example, there appears to be no representation for 'debt' which we believe should be included as an additional asset class (rather than, presumably, bundled in with 'Rates') and it appears unclear how cross currency interest rate swaps would be represented. The presented schema appears inchoate, lacking the rigour of the ISO process.

We reiterate our belief that CPMI-IOSCO should consider all financial instruments – ETD and cash instruments as well as OTC. This approach was adopted by the working groups on the recent ISO 10962 revision and we would argue that this standard should be adopted internationally.

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

We believe a value of 'other' should be avoided as much as possible in a scheme used as the basis for defining a unique product. However we recognise it is an inevitable requirement when composing a scheme to represent a constantly evolving universe as diverse as OTC derivatives.

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 believe that the custom basket itself should have its own International Securities Identification Number ("ISIN") and this should form part of the associated reference data set for the derivative.



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?

We strongly support the use of the ISIN to represent the underlying instrument as far as possible. This clearly works well from a securities perspective and the underlying ISIN is part of the associated reference data for equity derivatives. There is no reason why this should not be extended for referential instruments. Already many indices have an ISIN and there is no reason why this cannot be extended to cover all interest rates and referential commodities (there are already precedents for this). Whilst many referential instruments already have ISINs, we would encourage the National Numbering Agencies ("NNAs") to increase the coverage of ISINs for these referential instruments.

There are also other ISO standards that may be more suitable to certain underlying than the ISIN. For example, we support use of the ISO 4217 to represent underlying currencies and the LEI to represent issuers and reference entities.

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 envisage any obstacles – e.g. the LEI of the index publisher.

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.

We are not aware of such issues. Many derivatives include this data as part of their contract specification.

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?

Previous consultation papers have already acknowledged that the roles of identification and classification are designed for different purposes. 'Identification' should only uniquely identify an instrument and separate elements for 'classification' should describe the attributes of that unique instrument. We therefore see no scope for intelligence within a UPI other than to aid the robustness of the scheme – e.g. through use of a check digit.

Question 8: Do you agree that a well-articulated UPI reference data library could support interoperability between dummy UPI codes and intelligent UPI codes? Why or why not? What steps could be taken with the UPI reference data to facilitate supporting both types of UPI code?

No. Trying to add some form of classification attributes to the identifier is unnecessary and can only compromise its integrity as an identifier.



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?

Using twelve characters for the ISIN (including check digit) has worked well for many years for ETDs and cash instruments. We believe one standard for all types of instrument is required for global harmonisation and aggregation and twelve digits have already proven fit for this purpose.

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?

Classification attributes should not be embedded in a code designed for identification. This would be an unnecessary compromise to the sole value of this data element. The Aii (Alternative Instrument Identification) scheme is a classic case study of dangers emerging when “intelligence” is built into an instrument identifier (for MiFID transaction reporting). The resulting code, of differing lengths, was extremely complicated for firms to populate correctly and proved impossible for the regulators to validate or decipher. Most importantly, it did not result in a unique product code for a derivative.

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?

Yes, the check digit has demonstrated its value for validation purposes across numerous regulatory reporting regimes, including MiFID and EMIR.

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?

There are significant advantages of having one uniform scheme for identifying financial instruments irrespective of whether they are OTC derivatives, ETD derivatives or cash instruments. This helps identifying and aggregating the risk exposure and follows the developments in the markets. The same length and structure should be uniform across all instrument types to aid validation and governance.

Question 13: For an intelligent UPI code, how should underlying the asset(s) or reference entity (entities) be represented within the UPI code? Would it be preferable for the part of the UPI code that represents the underlying asset(s) or reference entity (entities) to be dummy while the rest of the code is intelligent? Why or why not?



The underlying assets should not be represented in the UPI of the derivative. Instead it should be part of the associated reference data. This concept has proved robust across numbering schemes and reporting regimes

Question 14: Should the UPI code system avoid using Roman letters? Why or why not? Are there particular jurisdictions whose computer systems cannot accommodate Roman letters?

We are not aware of the use of Roman letters causing any issues.

Question 15: Would it be preferable for the UPI code system to use only Roman letters, only Indo-Arabic numerals, or a combination of the two? Why? If Roman letters are included in the UPI code system, should they avoid being case-sensitive? If the UPI code system uses both Roman letters and Indo-Arabic numerals, should the system not disallow particular characters that could be mistaken for each other (the lower-case letter “l” and the number “1”, the digit “0” and the upper-case letter “O” etc.).

The use of a combination of Indo-Arabic numerals and Roman letters has proved appropriate for the ISIN over many years global adoption and we support this approach going forward.

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