

Response of the National Settlement Depository (NSD)
on Consultative report 'Harmonisation of the Unique Transaction Identifier (UTI)'
issued by CPMI-IOSCO

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Table of contents

Part I – general questions.....	1
Part II	2
3.1 Reportable transactions.....	2
3.2 UTI approach for reporting of “package” transactions	2
3.3 The impact of lifecycle events on the UTI	3
3.4 Responsibility for the generation of the UTI	4
3.5 Timing of UTI generation	6
4.1 Proposed overall approach to UTI structure and format	6
4.2 Possible components of the UTI structure	6
4.3 Format (allowable characters and length)	7
5. Implementation.....	8
6. Summary of the consultation questions	8

Part I – general questions

(i) Which OTC derivatives transactions should be assigned a UTI?

NSD suggests that market participants should use UTI for a broad transactions type, not limited by derivatives only. E.g. in accordance with the Russian legislation¹, UTI should be assigned not only to derivatives transactions but to repo trades also so we presume UTI can be applicable for any trade type that being reported to the TR.

(ii) Which entity (or entities) should be responsible for generating UTIs in practice?

Counterparties, trading platforms and post-trade infrastructure should be responsible for the UTI generation. However, such service may be provided by other market participants. As for NSD, we plan to provide such service for those of our clients who have difficulties in UTI generation or are not able to determine which counterparty should create it.

(iii) What should be the structure and format of a UTI?

According to the recent draft of methodic recommendations introduced by the Russian regulator, the current structure of UTI should consist of 10 symbols of prefix taking from LEI (7-16 symbols) and 42 symbols of trade identifier created on uniqueness approach.

As for the plans to implement Unique Product Identifier into the UTI code, we suggest this will not only complicate the generation process but also may lead to disagreements between counterparties.

In case UPI will be included into the UTI code NSD suggests it will be a 'high-level' product identifier.

(iv) What steps would help to ensure that UTIs generated under the new guidance are distinct (to the extent necessary to achieve aggregation) from those UTIs generated under existing regimes?

Implementation of trade date into the UTI should segregate old UTIs from new ones.

¹ See Bank of Russia's Directive (Ordinance) 3253-U dated 30.04.2014

Part II

3.1 Reportable transactions

- **Question 1:** Are there jurisdictional differences about what is a reportable transaction that respondents believe will cause challenges for UTI generation? Please describe the differences and challenges.

In accordance with the Russian legislation repo trades are also reportable to TRs.

Starting 1 July, 2016 all OTC trades, including repo, concluded under master agreements, shall have a UTI assigned to them. In case such trades are made between Russian and e.g. EU counterparties, there could be difficulties on EU side if the latter is responsible for UTI generation.

As non-Russian counterparties are not obliged to report trades to the TR in Russia, there might be complexity in defining which party is responsible for UTI generation and, thus, there might be a risk of codes duplication in different jurisdictions.

- **Question 2:** Are there further harmonisations (that could potentially be applied) to the rules that define which transactions are reportable that would reduce or eliminate the challenges around generating UTIs? In answering this question, please also describe the challenge(s) and identify the jurisdiction(s).

There could be different trade types as well as legislation in different jurisdictions. We suggest that UTI should cover not only derivatives transactions but 'other' transactions, which could be reportable to TRs, as well.

3.2 UTI approach for reporting of "package" transactions

- **Question 3:** Do respondents agree with the proposed approach to UTI allocation for package transactions? Under what circumstances should the entire package have a single UTI?

A single UTI for transactions package might bring some complexity at the TR level as each reported trade included to the package will have the same transaction code, thus, the TR will have to generate its own transaction code within the system that will be required to differentiate one trade from another.

- **Question 4:** Are there other approaches to UTI allocation for package transactions that should be considered? If so, please describe.

- **Question 5:** Which, if any, of the options for identifying and linking components of packages do you favour and why? In particular, please consider the extent to which the options achieve traceability?

- **Question 6:** Do you see any difficulties in implementing any of the options for identifying and linking components of packages? If so, please describe.

- **Question 7:** Please identify and describe any alternative approaches for identifying and linking components of packages that should be considered, focusing in particular on any impact they would have on UTI generation.

3.3 The impact of lifecycle events on the UTI

- **Question 8:** Is the proposed division between events that should and should not require a new UTI complete and correct (please refer to the proposal described in this section and the table in Section 8)? If not, please provide other cases and explain why they should or should not lead to a new UTI being required.

According to the Russian regulation a new UTI can be generated at the moment when a trade is being conducted between two counterparties or in later stages before submitting the trade to the TR or in case of novation when an existing UTI is being replaced by a new one.

- **Question 9:** Different jurisdictions may have different rules (including case law) defining which events would require a new UTI to be created. Are respondents aware of any such differences? What difficulties do these differences create in the creation of UTIs? If jurisdictions' approaches to when a new UTI is required cannot be harmonised, are there other steps that could be taken to avoid double-counting of transactions reported to different TRs?

In general the Russian legislation replicates the ISDA standards that might mitigate a risk of different jurisdictions' approaches.

- **Question 10:** Do respondents agree with the analysis of linking related transactions through lifecycle events?

- **Question 11:** Are there other cases to be considered in the analysis of linking related transactions through lifecycle events?

- **Question 12:** Are there practical difficulties that would arise from putting a successor UTI on a transaction that had been terminated? Such difficulties could arise in the reporting, the processing by the TR or the analysis by the authorities.

- **Question 13:** Can respondents suggest other ways of achieving links between reports subject to lifecycle events that meet the characteristic to provide an audit trail?

- **Question 14:** Which of the proposed solutions to linking reports subject to lifecycle events do you favour? Do you see any difficulties in implementing any of the proposed solutions, and if so, what are they?

- **Question 15:** Can respondents suggest UTI constructs that would achieve embedding the link information about lifecycle events into UTI while still compliant with the authorities' desired characteristics for the UTI?

3.4 Responsibility for the generation of the UTI

- **Question 16:** Are there additional issues that should be taken into account in considering the responsibility for generating UTIs?

It should be considered that different trade types (not only with derivatives) may be reportable in different jurisdictions and require UTI.

There is lack of understanding of which party is primary responsible for UTI generation or which party's LEI code will be taken for UTI generation.

- **Question 17:** Would it be beneficial if the guidance did not provide for the harmonisation of rules for the responsibility for UTI generation with respect to trades that are not cross-border? Would there be disadvantages to this approach? Does the analysis of this idea depend on which option is used for cross-border trades?

We suggest that there should be unified rules for both cross-border and 'domestic' transaction since it'll simplify interaction between counterparties.

Without unified approach some market participants will have to maintain different generating algorithms for different transactions which will:

- be time- and cost- ineffective;
- lead to mistakes (and possible penalties from the regulators if applicable).

- **Question 18:** Do respondents agree with the high-level assessment of the Option 1 proposal for the responsibility for generating UTIs? Please explain why or why not.

Yes.

- **Question 19:** Are there additional considerations relevant to the Option 1 proposal for the responsibility for generating UTIs? If so, please describe.

No.

- **Question 20:** Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?

No.

- **Question 21:** What are respondents' views on the proposed Option 1 hierarchy for the responsibility for generating UTIs? Are the steps necessary and sufficient? Are they sufficiently defined? Are there alternative ways of achieving Step 6?

The hierarchy of Option 1 meets our expectation.

- **Question 22:** Is it desirable to include the sort of flexibility represented by Steps 1–5? If so, where in the hierarchy should the flexibility be provided (eg as the first step in the hierarchy or further down the waterfall)?

Yes, flexibility should be provided in steps 2 – 5.

- **Question 23:** Can respondents provide an alternative set of UTI generation steps for the proposed Option 1 hierarchy for the responsibility for generating UTIs that meet all of the characteristics set out in Section 2?

The provided characteristics are sufficient.

- **Question 24:** Does the proposed Option 1 hierarchy for the responsibility for generating UTIs work across different reporting jurisdictions, particularly considering differences such as single-sided and double-sided reporting?

Yes.

- **Question 25:** Do respondents agree with the high-level assessment of the Option 2 proposal for the responsibility for generating UTIs? Please explain why or why not.

No, UTI creating principles should be harmonized across different jurisdiction.

- **Question 26:** What are respondents' views on the feasibility of the Option 2 proposal to the responsibility for generating UTIs? Are there particular issues for respondents that operate in more than one jurisdiction? How serious is the possible ambiguity in Option 2 and are there efficient and suitable workarounds?

It is feasible to generate UTI using option 2.

- **Question 27:** Are there additional considerations relevant to the Option 2 proposal for the responsibility for generating UTIs? If so, please describe.

No.

- **Question 28:** Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?

No.

- **Question 29:** What are respondents' views on the possible rules for the generation of UTIs that meet the compatibility approach of Option 2? Are there any additional rules that should be considered to meet the compatibility approach?

The provided rules are sufficient.

- **Question 30:** Do respondents agree with the assessment of the Option 3 approach for the responsibility for generating UTIs?

Yes.

- **Question 31:** Are there particular challenges for authorities in monitoring compliance with any of the options for the responsibility for generating UTIs?

Certain challenges may arise, such as acceptance of a third party which operates in jurisdiction different from authority's one.

- **Question 32:** Considering all three options presented for the responsibility for generating UTIs, do respondents see other suitable solutions meeting the characteristics set out in Section 2?

No

- **Question 33:** Which option for the responsibility for generating UTIs do you regard as preferable? Why is this? What would be the disadvantages to you if your non-preferred option was chosen?

Options 1 and 3 seems to be the most suitable for the market since they may guarantee certain level of neutrality.

3.5 Timing of UTI generation

- **Question 34:** Is the assessment about timing for UTI generation correct? Are there examples of timing requirements from authorities that are incompatible with other elements of the proposed UTI generation approach? If so, please describe them.

Yes, the assessment is correct.

4.1 Proposed overall approach to UTI structure and format

- **Question 35:** Do respondents agree with the proposed overall approach to UTI structure and format? If not, please suggest alternatives that meet the characteristics?

Yes. However using LEI prefix without LOU code may compromise UTI uniqueness.

4.2 Possible components of the UTI structure

- **Question 36:** Which of these possible UTI components, if any, are important and why? Is it necessary for the UTI to have any of these components?

LEI (with LOU prefix) seems as an essential component to the code. In cases when one of participants has no LEI (or unable to attain one) a rule should be established that only party with LEI may generate UTI. Usage of country code seems excessive for the purposes of trade identification (LEI should provide enough information).

- **Question 37:** Would it be useful or necessary to include check digit(s) in the UTI? Why?

It would be useful as this check guaranties at basic level that provided code is not fake or mistaken.

- **Question 38:** Which components, if any, should be included in the UTI? Which, if any, components should be used in UTI construction but not appear in the UTI? In answering this question, consider both the components listed in the table above or suggest other components as necessary. Please, explain how the particular components contribute towards meeting the characteristics set out in Section 2.

The following components should be included:

- LEI prefix with LOU code – as mandatory;
- Trade date – as an option.

- **Question 39:** Should the UTI be solely a dummy code, ie a value that contains no embedded intelligence? Why or why not? Assuming that other data elements regarding a transaction (e.g. the identification of the counterparties, the date and time of execution etc) will be captured by the report to the TR, is it necessary to reflect such elements in the UTI?

NSD suggests that a dummy UTI is more preferable: it is simpler for implementation and it'll ensure confidentiality. Trade date may be considered for usage in UTI because it may speed up the search time.

- **Question 40:** Should the details of how to construct the ID value be defined and, if so, what approach (eg UUID) should be used?

Some mathematical algorithm should be used that will minimize a risk of codes duplicates.

- **Question 41:** How important will it be to be able to distinguish "new" UTIs from "legacy" UTIs? Assuming that the trade report includes the date and time of execution, would it be necessary to embed the indication in the UTI itself or should the indication be explicit in a separate field?

It is not a concern for the Russian market since UTI will be introduced from 1 July, 2016. Implementation of a trade date into the UTI should distinguish new and legacy UTIs.

- **Question 42:** Is it necessary or practical for the UTI to include a Mint component? If so, is the use of the LEI appropriate for the Mint component in the UTI? Are there other values that could be considered for this? What issues would arise in this case? How should cases where the Mint entity doesn't have an LEI be handled?

We do not consider it practical solution. LEI of the counterparties should be used instead.

- **Question 43:** What issues would arise from using the suffix UTI component to link the reports of components of a package?

- **Question 44:** Will including or not including certain components set out above in the UTI require changes to respondents' systems or other systems on which you are dependent? How much change?

Not much changes are expected, but cost of UTI implementation for the market participants will rise in case UTI becomes more complex.

- **Question 45:** Are there any issues in having an "intelligent" UTI? What are respondents' views on the potential solutions to these issues? Are there alternative ways of dealing with this?

Yes. 'Intelligent' UTI will complicate generation process and may lead to the breach of confidentiality (e.g. it will be possible to determine trade types which certain market participants use etc.). Sensitive information should be excluded from the code.

- **Question 46:** Can respondents suggest algorithms that would achieve the Option 3 approach to generating the UTI?

4.3 Format (allowable characters and length)

- **Question 47:** What are respondents' views on the lengths of the various potential components of the UTI (assuming that they are included directly in the UTI) and hence the length of the overall UTI?

No opinion, but the length of the UTI must be standardized between jurisdictions.

- **Question 48:** Should the UTI be case-sensitive (allowing for upper- and lower-case characters to be regarded as distinct)? Should the UTI avoid using certain alphanumeric characters that resemble others? For example, do you think it advisable for the UTI system to avoid using the digits "0" and "1" so as to avoid confusion with the letters "O" and "I" (or vice versa)?

No opinion on case-sensitiveness. We'd prefer that number and letters only be used in UTI (with exceptions to underlining and/or dash or any other common symbols).

- **Question 49:** Should other characters be allowed in the UTI beyond those proposed? If so, which ones and why do you recommend them? Could all jurisdictions and languages readily accommodate these characters?

No, other characters should not be allowed.

- **Question 50:** Should separators between different component parts of the UTI be used? Why or why not? If so, which separators and why do you recommend them?

Separators may be used, we'd recommend usage of underlining or dash.

- **Question 51:** Should the length of UTI be of fixed or should only the maximum length be indicated?

Fixed length is preferable for unified approach and simplicity of code recognition.

5. Implementation

- **Question 52:** Do respondents agree with the proposed implementation approach? Is there a risk that a newly generated UTI would have the same value as an existing UTI as a result of these proposals? Is it possible to estimate the size of this risk? What problems do respondents see regarding "legacy" UTIs under this approach?

Yes, NSD agrees to the approach in general. There is a certain risk of UTI duplication but NSD is not able to estimate its size.

6. Summary of the consultation questions

- **Question 53:** Are the descriptions of lifecycle events complete and sufficiently defined? In particular, are there differences between novations and assignments that are not captured in the table and which are significant for UTI generation? Are the conclusions as to when a new UTI is required correct?

Please see answer in Question 8.