REGIS-TR
EUROPEAN TRADE REPOSITORY

February 2016

REGIS-TR contribution to

Consultative report

Harmonization of the Unique Product Identifier

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Introduction

REGIS-TR appreciates the possibility of providing input to the CPSS-IOSCO working group is carrying out on the sake of harmonization regarding the using and generation of a common UPI.

REGIS-TR would like to contribute to this consultation process by providing the view of the Trade Repositories, situated at the end of the reporting chain, ultimately receiving the outcome of the information which has been shared and communicated by the different agents in the industry, but playing a key role in the reconciliation process.

Consequently, REGIS-TR is in a position to share its experience and lessons learned through the elaboration of a regulatory reporting service and knowledge of the Reporting Technical Standards defined by ESMA.

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Comments

REGIS-TR is a European Trade Repository offering among others, services to comply with EMIR reporting requirements. Under this reporting obligation, both OTC and ETD derivative contracts (details) must be reported by EU counterparties.

Even the specific scope of this consultation over OTC derivatives and not ETD, the response hereby provided by REGIS-TR is not limited to the OTC derivatives products, taking into account that an international reporting solution should cover as much as possible all reporting scenarios.

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Questions

Question 1: Are the above three OTC derivative instrument types sufficient to describe (in combination) all OTC derivatives? Which OTC derivatives would fall outside this approach?

While the proposed classification only includes; Forwards, Swaps and Options, please note that the new Reporting Technical Standards defined by ESMA describe the Contract type with the following options:

- Financial contacts for difference
- Forward rate agreements
- Futures
- Forwards
- Option
- Spreadbet
- Swap
- Swaption
- Other

As mentioned in the introduction, some jurisdictions such as Europe have included the ETD under the reporting scope, and therefore will need solutions that include such type of derivatives in order to fulfill their reporting obligations.

Question 2: Is it valid to assume that a combination of data elements of the instrument and data elements of the underlier is sufficient to define a product? If not, please explain.

REGIS-TR agrees with the statement that "The data elements for representing an OTC derivatives product would combine elements of the OTC derivatives instrument type with elements of the underlier. This combination may vary across asset classes."

Currently the classification per underlie is already provided by ESMA RTS, being it: Currency, Interest Rate, Commodities, Equities and Others.

In our experience the confusions comes when a same product could be equally assigned to two or more categories due to the characteristics of the underlier product. In order to provide unanimous and prescriptive classification, certain rules should be envisaged in order to agree on how to proceed when this situation occurs.

Question 3: Is it valid to assume that the combination/set of data elements in the UPI classification system may differ across asset classes? If not, please explain and state how a uniform set of data elements could be comprehensively applied across asset classes.

REGIS-TR agrees that at this level, the UPI would contain information about the instrument type and product but not about the contract or the transaction.

Question 4: Do you agree with this approach to the UPI's treatment of package trades? If not, please explain and suggest alternatives.

REGIS-TR agrees with the fact that if the different parts of a strategy are reported independently (as defined in EMIR regulation for example), then the fact that a particular transaction is linked to another transaction, as part of a package trade, is an attribute of a transaction, not of a product.

Therefore, as suggested in the UTI consultation, constituent package transactions could be identified or linked either by a UTI, or by a separate field.

Question 5: Are the principles and high-level specifications listed and described above comprehensive in representing the characteristics of a classification system? If not, are there other principles and high-level specifications that should be considered? Please list and explain.

Ok.

Question 6: Are the principles and high-level specifications listed and described above accurate and precise in their definitions? If not, are there changes you would suggest? Please list and explain.

Ok.

Question 7: Could some of these principles and high-level specifications pose implementation challenges? Which ones and why?

From our perspective there are two main principles that may be difficult to comply with. These are principle number:

"3.1 Jurisdiction neutrality"

Different jurisdictions have different scope and interpretation of the derivatives reporting obligation. As mentioned before, the European regulation includes de reporting of ETD derivatives, and therefore a UPI codification that satisfies this regulation should include codes for this type of products. Likewise, this may happen with many other jurisdictions and products.

"3.10 Compatibility"

It should be taken into account that reach a common standard in order to classify derivatives products with a codification and technical configuration that fits all market infrastructure agents and trade repositories will imply a great challenge.

To give an example, the different existing TRs in Europe already have different communication formats and reports schemas, even though we share the same regulation and technical standards.

Taking this to an international level will imply much more differences and discrepancies. Nevertheless, experiences such as the one of the LEI have proved that adaptation and common solutions are possible if the different stakeholders are taking into account and allowed for comments and cooperation.

Question 8: Providers of product classification systems are encouraged to provide a detailed response to Section 3 to set out how their prospective UPI solutions meet, or could be revised to meet, each of these principles and high-level business specifications. If the UPI solution does not meet a particular principle or high-level business specification, please describe planned or potential amendments that could satisfy it.

n/a

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?

From our experience, even though a category "other" will be "misused" in many occasions, the absence of this option may prevent market participants from complying with their reporting obligations in certain circumstances.

It must be assumed that along with the development or incorporation of new products, reporting guidance may need to be adapted or broadened.

Question 10: The results from the study presented in Annex 4 suggest that data elements that describe the instrument together with data elements that describe and identify the underlier may provide an optimal level of granularity for product classification. For informational purposes, beyond the use of a derivatives product classification system for the global aggregation of data reported to trade repositories, are you aware of product classifications for other purposes where this level of granularity is applicable? For example, what level of granularity is used for aggregating transactions to calculate a position, or to determine various risk exposures to a particular product? What level of granularity is used to aggregate transactions for the purposes of compression or netting operations?

Question 11: Do the options presented above appear operationally feasible? If not, please explain why.

In principle, they do appear to be operationally feasible.

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)?

It is our opinion that the option of providing an identifier to the underlier may lead to a too prescriptive and inflexible solution that may not achieve the objective of covering all existing underliers and consequently limit the possibility of providing realistic descriptions in certain situations.

From our experience it is preferable to have a less granular taxonomy that allow for the reporting of all products, letting counterparties to agree on the way of reporting when ambiguity may arise, than forcing counterparties to make "false" reporting descriptions because the existing options do not allow for the reporting.

Question 13: A classification system that includes identifiers for underliers in all asset classes would require identifiers that are open-source and freely available to all users with open redistribution rights. Looking at the example of classification systems provided in this section and in Annex 5, do such identifiers exist for all asset classes? If not, please specify where you foresee implementation challenges in this regard and any suggested solutions.

n/c

Question 14: For the identifiers in each asset class, are there corresponding reference data that are open-source and freely available to all users with open redistribution rights?

n/c

Question 15: For a classification system that does not include an identifier for underliers in all asset classes, what classification systems are available that are open-source and freely available to all users with open redistribution rights? What are the data elements included in these systems?

n/c

Question 16: Based on the examples provided in this section and in Annex 5, do you have comments on how the allowable values would be technically managed

or/and how they are technically managed in the case of existing classification system solutions?

n/c