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

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General comments on the report:

Dear Sir/Madam,

Risk Focus is pleased to provide comments on the Consultative Report on “Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch” published on the 18th of October 2016.

Risk Focus offers the only commercially available Data Validation and Trade Repository Emulation service (https://validate.trade). Validate.Trade is a rules based validation engine that codifies and distributes data validation rules to help market participants meet the data quality expectations of Global Regulators, including the ESMA (for EMIR and MiFIR), the CFTC, the HKMA and ASIC. In this capacity, we support efforts by regulators to define the usage, content and format of critical data elements and to prescribe specific data reporting standards and rules.

We would like to commend CPMI-IOSCO for taking the lead in issuing guidance and definitions for OTC derivatives data elements because Risk Focus and our client community see first-hand the issues and challenges arising from having to report common fields with differing values for different jurisdictions. We appreciate that the G20 OTC derivatives reporting is relatively new and feel that this is a crucial step towards harmonising the data to support the regulators efforts to aggregate the data whilst at the same time making the data more useful to the individual firms for their internal control frameworks.

Feedback is provided below based on comparing the consultative report proposals to those issues relatively recently by the CFTC and ESMA. Namely the CFTC ‘Draft Technical Specifications For Certain Swap Data Elements’ published in December 2015 and the ESMA ‘2015-esma-1645_-_final_report_emir_article_9_rts_its’ published in November 2015. We have taken this approach as it was not practical to compare the CPMI-IOSCO recommendations to every single G20 jurisdiction and we therefore felt that CFTC Dodd-Frank reporting and ESMA EMIR reporting were the two best benchmarks to compare these proposals to.

In conclusion, we thank you again for the opportunity to comment on this consultation and hope that our comments will assist in its efforts to establish consistent and achievable recommended standards for to further improve data quality surveillance.

Sincerely,

Brian Lynch
Chief Executive Officer

2.1 Reporting timestamp

Comments on the data element “reporting timestamp”:

Risk Focus agree with the proposed definitions and formats.

2.2 Execution timestamp

Comments on the data element “execution timestamp”:

Risk Focus agree with the proposed definitions and formats. We would add that the crucial element here is to define as clearly as possible the difference between the timestamp of the original execution that resulted in the trade and any subsequent lifecycle events. With regards to this the CFTC proposals to use Event_ID alongside Event_Type and USI_Version are an interesting proposal. On a global level having a distinct definition around exactly what counts as Execution Timestamp versus any supplementary fields such as those above would be hugely beneficial.

2.3 Final settlement date

Q1: With reference to the definition proposed for the data element “final settlement date” (Section 2.3), is it sufficiently clear that the settlement date for options and swaptions is the date on which the option or swaption would settle if it was exercised on the expiry date? If not, should additional language be added to the definition to clarify that?

Risk Focus agree with the proposed definitions and formats.

Other comments on the data element “final settlement date”:

Risk Focus would like to point out that using ESMA and CFTC as examples the related fields are more loosely defined and don't reference the 'Final' settlement date. Also in both cases these fields support multiple dates. ESMA - Settlement Date - If more than one, further fields may be used CFTC - Date of Settlement - The periodic or final payment dates when pre-determined amounts in the Settlement Currency are paid or received so as to settle the outstanding payment. The presence of multiple dates would make aggregation difficult until a distinct field is introduced for the Final Settlement Date.

2.4 Settlement currency

Q2: With reference to the definition proposed for the data element "settlement currency" (Section 2.4), is it sufficiently clear that the settlement currency of swaptions is the currency of the underlying swap? If not, should additional language be added to the definition to clarify that?

Risk Focus agree with the proposed definitions and formats.

Other comments on the data element "settlement currency":

Risk Focus would like to comment that whilst the proposals make sense it's interesting to see that CFTC have a field aligned to this but ESMA don't have an obvious corresponding field within EMIR.

2.5 Confirmed

Comments on the data element "confirmed":

Risk Focus agree with the proposed definitions and formats. Furthermore Risk Focus commend the approach of adopting the ISO 20022 values as we feel that this XML standard has a great deal of potential value to trade reporting.

However we would still like to point out some differing approaches currently proposed. For Dodd-Frank the CFTC does not have a corresponding field. Due at least in part to the US SEF market model.
For ESMA the definitions are the same but the acceptable values show potential for confusion. e.g.

YCNF=unconfirmed (in this paper) whereas Y=Non-electronically confirmed in EMIR

NCNF=non-electronic (in this paper) whereas N=Non-confirmed in EMIR

There is potential for confusion as a result.

2.6 Day count convention

Comments on the data element "day count convention":

Risk Focus agree with the proposed definitions and formats.

2.7–2.8 Payment frequency period; payment frequency period multiplier

Q3: With reference to alternatives proposed for the data element "payment frequency period" (Section 2.7):

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

(b) Which of the proposed harmonisation alternatives should be supported and why? Is alternative 2 sufficiently broad to capture all the allowable values that are relevant for an OTC derivatives transaction? If not, which allowable values are missing? Should the list of allowable values under alternative 2 also include the value "intraday"? Please provide examples in which the additional allowable values that you propose would be relevant for an OTC derivatives transaction. Is it preferable to expand the list in alternative 2 with the missing allowable values or to opt directly for the most extensive list of allowable values available in alternative 1?

Risk Focus feel that Alternative 1 is better as it accommodates factors that are not present in Alternative 2 and firms would have to report the closest possible value rather than the actual value leading to a decrease in the accuracy of the reporting.

Other comments on the data elements "payment frequency period" and "payment frequency period multiplier" (Sections 2.7–2.8):

2.9–2.12 Counterparty 1 (reporting counterparty); counterparty 1 type; counterparty 2; counterparty 2 type

Q4: In the consultative report on the first batch of data elements (other than the UTI and UPI), the Harmonisation Group proposed the harmonisation of the "identifier of the primary obligor". Based on the feedback received during the public consultation, the Harmonisation Group is considering referring to the same concept with the term "beneficiary". With reference to data elements "counterparty 1 (reporting counterparty)", "counterparty 1 type", "counterparty 2" and "counterparty 2 type" (Sections 2.9–2.12):

(a) Is it clear that in some jurisdictions the counterparty and beneficiary are always the same entity while in other jurisdictions they may or may not coincide?

For example, in the US the counterparty would always coincide with the beneficiary; in the EU this is not always the case as eg in a transaction concluded at the level of the umbrella fund, that fund would be identified as the counterparty, and the sub fund as the beneficiary.

Is it necessary to further clarify the term "counterparty" or is it clear enough?

Risk Focus agree the proposed definitions and formats are clear enough for Counterparty 1 and Counterparty 2.

In addition we are broadly supportive of the Counterparty 1 Type and Counterparty 2 Type definitions but would observe that these are both new concepts and not currently reported under Dodd-Frank or EMIR. Both of these regulations contain fields indicating whether the counterparty is a Financial or Non-financial entity but beyond that do not indicate whether the counterparty is a legal entity or not.

(b) Are there cases in which a transaction involves multiple counterparties that are jointly liable for the whole amount of the transaction? If so, how do you believe that multiple counterparties should be represented?

(c) In addition to reporting counterparty 2 type, what approach should be taken for natural persons not acting in a business capacity as counterparty 2?

Other comments on the data elements "counterparty 1 (reporting counterparty)", "counterparty 1 type", "counterparty 2" and "counterparty 2 type" (Sections 2.9–2.12):

2.13 Report-submitting entity

Comments on the data element “report-submitting entity”:

Risk Focus agree with the proposed definitions and formats.

2.14 Broker of counterparty 1

Comments on the data element “broker of counterparty 1”:

Risk Focus agree with the proposed definitions and formats.

2.15 Central counterparty

Comments on the data element “central counterparty”:

Risk Focus agree with the proposed definitions and formats.

2.16 Clearing member

Comments on the data element “clearing member”:

Risk Focus agree with the proposed definitions and formats.

2.17 Platform identifier

Comments on the data element “platform identifier”:

Risk Focus agree with the proposed definitions and formats. We would further comment that whilst ISO MIC codes are the best practice outside the United States the US model is different and under Dodd-Frank it is the LEI of the SEF that is reportable.

2.18 Inter-affiliate

Q5: Should the definition of the data element “inter-affiliate” (Section 2.18) take into account the possibility that there is no local definition of affiliated entities under the local regulation of counterparty 1 (reporting counterparty), or is this redundant?

Other comments on the data element "inter-affiliate":

2.19 Booking location of counterparty 1

Q6: With reference to the data element "booking location of counterparty 1" (Section 2.19), is it clear that the location where the transaction is booked for counterparty 1 refers to the location where profit and losses are allocated (be it the location of the headquarters, domestic branch or international branch)?

Risk Focus agree with the proposed definitions and formats.

Other comments on the data element "booking location of counterparty 1":

Risk Focus would like to comment that this is a new concept for both Dodd-Frank and EMIR as this information is not required currently. From a systemic risk perspective this info is probably not that relevant. From a market surveillance perspective it is clearly more valuable to regulators. The approach is broadly similar to that being implemented by ESMA under the MiFID II legislation which is the EU's market surveillance framework.

2.20 Location of counterparty 1's trading desk

Q7: With reference to data element "location of counterparty 1's trading desk" (Section 2.20), is it sufficiently clear who is being referred to as the trader "responsible for executing the transaction"?

Other comments on the data element "location of counterparty 1's trading desk":

2.21–2.22 Strike price; strike price notation

Q8: With reference to data elements "strike price" and "strike price notation" (Sections 2.21 and 2.22) is the proposed format length for "strike price" (Num(18,13)) sufficiently big for strike prices denominated in any currency? If not, what would be an appropriate format length, both for characters before the decimal point and characters after the decimal point?

Risk Focus agree with the proposed definitions and formats.

Risk Focus have no further comment on Strike Price. For Strike Price Notation we would like to commend CPMI-IOSCO for suggesting harmonization as currently the CFTC and ESMA are proposing different values.

CFTC are proposing: Price, Spread, FX Rate, Percentage, Upfront Points, Interest Rate

ESMA are proposing: U=Units, P=Percentage, Y=Yield

Other comments on the data elements “strike price” and “strike price notation”:

2.23 Option lockout period

Comments on the data element “option lockout period”:

Risk Focus agree with the proposed definitions and formats.

2.24–2.25 Option premium; option premium currency

Q9: With reference to data elements “option premium” and “option premium currency” (Sections 2.24 and 2.25), should an option premium payment date be added, to take into account that the option premium may sometimes be paid at the end of the transaction?

Risk Focus agree with the proposed definitions and formats.

Other comments on the data elements "option premium" and "option premium currency":

2.26–2.27 CDS index attachment point; CDS index detachment point

Comments on the data elements "CDS index attachment point" and "CDS index detachment point":

Risk Focus agree with the proposed definitions and formats.

Other comments:

Risk Focus would like to reiterate our thanks to CPMI-IOSCO for taking the lead in this effort. A lot of progress has been made with regards to OTC derivative reporting since the 2009 G20 commitments. But there is clearly a long road to travel before the data being reported to trade repositories for different jurisdictions is truly fit for the intended purposes and aggregation. Globally agreed standards will make it less of a burden for the firms to meet their reporting obligations and will support their efforts to ensure they have robust data quality controls and frameworks.