

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

Respondent name:

Contact person:

Contact details:

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General comments on the report

Please refer to the "Other comments" section.

2.1 Collateral portfolio

Comments on the data element "collateral portfolio":

No comment.

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)?

The Consultative Report provides two alternatives for collateral portfolio code. Alternative 1 consists of one single data element whereas alternative 2 consists of 3 data elements for initial margin posted, initial margin received and variation margin.

State Street believes that it is common for different transactions concluded under the same Master Service Agreement (“MSA”) to be associated with different Credit Service Annexes (“CSAs”) (for initial margin posted, initial margin received and variation margin) during the transition years to the bilateral margin rules.

We further note that it is necessary to allow for different participants under the same MSA and that it is a prime example of the necessity of ontology. In an ontology context, MSA is at the parent level while CSA is at the child level. An example would be when the U.S. Commodity Futures Trading Commission (“CFTC”) adopted a parent/child ontology for interest rate swaps, it had to broaden the definition of the data elements in the ontology in order to account for the different counterparties who might be transacting against the same derivatives contract.

- (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.

State Street believes that the assumption is correct 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 would be associated with each of these CSAs.

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

State Street believes that the Consultative Report clearly illustrates the differences in authorities' use of the two alternatives in Table 2.

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

State Street believes that alternative 1, one single data element, should be supported as it is a much cleaner approach and more aligned with general market practice.

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

No comment.

2.3 Portfolio containing non-reportable component

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

No comment.

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?

State Street believes that the premise that the difference between "initial margin required to be posted by the reporting counterparty" and the "initial margin posted by the reporting counterparty" may be due to the timing of when the required margin is determined and when the margin is posted, is incorrect. The value of collateral is not adjusted based on differences in the settlement date, as collateral is typically assumed safe settlement when posted and not when actual settlement occurs.

- (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?

No comment.

Other comments on the data elements related to margins:

No comment.

2.29 Indicator of intraday variation margin calls

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

No comment.

2.30 Collateralisation category

Comments on the data element "Collateralisation category":

No comment.

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?

No comment.

- (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?

No comment.

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?

No comment.

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

No comment.

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?

No comment.

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):

No comment.

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":

The Consultative Report provides the following definition for clearing obligation in the jurisdiction of the reporting counterparty:

"Indicates whether the reported transaction belongs to a class of OTC derivatives that has been declared subject to the clearing obligation and that both counterparties to the transaction are subject to the clearing obligation under the rules of the jurisdiction of the reporting counterparty, as of the time of execution of the transaction."

State Street believes that the definition of these classes must be clear. These definitions should be shared with counterparties and clients so all stakeholders have the same understanding and references. Only through complete clarity, consistency and transparency of data can the marketplace truly achieve digitization and automation. Furthermore, the industry's push towards T+0 settlements will be impossible without complete clarity, consistency and transparency of data.

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?

No comment.

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?

No comment.

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?

No comment.

- (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?

No comment.

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

The Consultative Report's definition for "price" states "[t]he price specified in the OTC derivatives transaction" and then provides an example and items that price is not applicable to. State Street believes that the definition is lacking what prices will be obliged to contain (i.e. should they include fees, taxes, commissions, etc.) Price is not a single entity and therefore needs to be defined with lower-level and derived properties.

The Consultative Report provides the data element "price schedule" as a critical data element. State Street believes that price schedules across locations should not be defined. If it is linked to entities' locations, it needs to be precise.

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?

No comment.

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":

The Consultative Report states that the data element "spread" is the manner in which the spread is expressed and provides that allowable values can be an amount or a percentage. State Street believes that the allowable value should be expressed as a number (not a percentage), as this is more aligned with market practice. Additionally, the definition of spread should explicitly state that a spread can be negative.

2.51–2.52 Data elements related to "Exchange rate"

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

No comment.

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?

State Street has experienced scenarios where the notional amount may not always be known when a new transaction is reported and may be updated later. For example, this scenario happens often with equity swaps where the trade is executed today based on the index close in the future. This means State Street knows the units, but not the precise notional amount, until that effective date.

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

No comment.

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”:

No comment.

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”:

No comment.

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?

No comment.

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”:

No comment.

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?

No comment.

Other comments on the data element "Prior UTI":

No comment.

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?

No comment.

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

No comment.

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.

No comment.

- (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?

No comment.

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

No comment.

Other comments on the data elements related to custom baskets:

No comment.

Other comments

State Street Corporation ("State Street") appreciates the opportunity to comment on the Committee on Payments and Market Infrastructures ("CPMI") and the International Organization of Securities Commission's ("IOSCO") consultative report ("Consultative Report") on the harmonization of over-the-counter ("OTC") derivatives data elements (other than the Unique Transaction Identifier ("UTI") and Unique Product Identifier ("UPI")), third batch.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management, data and analytics, and investment research and trading. With \$31.037 trillion in assets under custody and administration and \$2.606 trillion in assets under management as of June 30, 2017, State Street operates in more than 100 geographic markets worldwide. State Street is organized as a United States ("U.S.") bank holding company, with operations conducted through several entities, primarily its wholly-insured depository institution subsidiary, State Street Bank and Trust Company.

State Street strongly supports the global harmonization of data elements including the UTI, UPI, and other critical data elements, as they are crucial to the safety, soundness and efficiency of global financial markets. We believe this requires a close public-private collaboration with the financial services industry for standardization to be developed most effectively. While we generally support the initiatives taken by CPMI and IOSCO to develop guidance for the harmonization of critical OTC derivatives data elements, we have a few broad overall concerns with the Consultative Report and comments on specific data elements which we believe require clarification to facilitate practical implementation.

As an initial matter, we believe that custody banks, such as State Street, should be active participants in discussions related to the global harmonization of reference data elements, as all aspects of the financial services industry and lifecycle of an OTC derivative should be represented. Custody banks have the unique ability to provide insight across a diverse client base as we are privy to data from several clients and therefore have the ability to aggregate data. Furthermore, the primary focus of custody banks is the overall infrastructure of reference data, as we play a critical role in the post-execution lifecycle of OTC derivatives. Finally, beyond just the custody of physical assets and cash, State Street provides services such as middle office outsourcing, fund accounting and regulatory reporting on behalf of clients and already has significant experience and has committed substantial resources to these important reference data efforts.

Second, we welcome efforts to remove ambiguity in definitions and support the prescriptive nature of the definitions for the critical OTC derivative data elements in the Consultative Report. This will help alleviate problems that arise when matching trades in circumstances such as dual-sided reporting. Currently, the lack of clarity around certain data fields, where the European Securities and Markets Authority ("ESMA") has issued additional question and answer documents, is a significant impediment to trade matching. Additionally, robust definitions for each data element will reduce inconsistencies in the interpretation of each data element as a means to improve the overall quality and harmonization of data elements. We therefore support prescriptive definitions for the critical OTC derivative data elements and encourage clear direction with regards to information required in certain data fields.

Third, we believe that consideration is needed for the system architecture implications of certain fields and how they can be accurately derived. System architecture is the overall framework in which the harmonization of critical data elements, including UTI and UPI, reside. Full system architecture encompasses processes, algorithms and workflows that although may be outside of this Consultative Report, are directly related to the meaning of data elements. Solely defining data elements in a data dictionary or taxonomy is insufficient, because although standardizing the meaning or semantics of the data is foundational, it is incomplete. Therefore, we believe that adequate consideration must be given to the system architecture implications of critical data elements, including the UTI and UPI.

Finally, we believe that "not applicable" should be permitted as a response for certain transaction types when a data element is not applicable as opposed to leaving it blank. A "not applicable" response indicates that the sender actively determined that a particular data element did not apply. It reduces the back and forth between parties to verify that information was accurately inputted and therefore improves the efficiency of the process.

In conclusion, State Street supports CPMI and IOSCO's initiative to harmonize critical OTC derivatives data elements (other than the UTI and UPI) as global standards will improve data quality, management and efficiency. Please feel free to contact David Saul at dnsaul@statestreet.com should you wish to discuss State Street's submission in further detail.