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

Respondent name: State Street Corporation

Contact person:

Contact details:

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General comments on the report:

See "Other comments."

2.1 Reporting timestamp

Comments on the data element "reporting timestamp":

No comment.

2.2 Execution timestamp

Comments on the data element “execution timestamp”:

No comment.

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?

State Street believes that the proposed definition for the data element “final settlement date” does not take into account nuances at the product type level. Currently, final settlement date is defined as: “The final contractual date on which a derivatives transaction will be or was settled, that is, the actual day (based on UTC) on which transfer of cash or assets is completed. The final settlement date should remain blank for CDS contracts until the default of the underlier.”

We recommend that CPMI and IOSCO provide explicit guidance as to which product types final settlement date is applicable to beyond options, swaptions and CDS contracts. Further clarification of the definition is required to differentiate between the final settlement of periodic payments versus the final settlement of any underlier upon an event of default or the exercise of an option. Additionally, the proposed definition should capture nuances for other product types such as syndicated loans and other alternative contracts where the settlement date for syndicated loans is when the parties agree to the final contract.

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

No comment.

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?

State Street believes that the proposed definition for "settlement currency" could be enhanced to take into account instances when one transaction involves two currencies. We recommend further clarification as to whether the currency for the cash settlement of the transaction applies to periodic payments and/or cash associated with the final settlement of the underlier. Additionally, it is not sufficiently clear that the settlement currency of swaptions is the currency of the underlying swap and recommend this level of clarification for swaptions, as well as other products, be clearly articulated.

Other comments on the data element "settlement currency":

No comment.

2.5 Confirmed

Comments on the data element "confirmed":

No comment.

2.6 Day count convention

Comments on the data element "day count convention":

The Consultative Report lists ISO 20022: Interest Calculation/ Day Count Basis as the existing industry standard for the Day Count Convention data element. However, ISDA definitions typically govern the legal confirmation of the contract in the OTC derivatives market, not ISO 20022. ISDA definitions are routinely updated based on new market products and needs and therefore State Street requests that CPMI and IOSCO clarify how existing ISDA definitions which underlie derivatives contracts can be mapped to the new definition.

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?

No comment.

(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?

CPMI and IOSCO offer two alternatives for allowable values. Alternative 1 includes 14 allowable values while Alternative 2 offers only 7 values. State Street supports Alternative 2 as it is sufficiently broad to capture all the allowable values that are relevant for an OTC derivatives transaction. It avoids multiple ways in which to report the same frequency.

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

No comment.

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?

No comment.

(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?

State Street believes that there should be only one counterparty for each transaction. If more than one counterparty is involved, then the counterparty should be specified for each leg of the transaction. For example, a novation would essentially be two trades from an operational perspective, with the closing of the original trade before novation, and the opening of the new trade upon novation. This methodology reinforces that a transaction should always be bilateral.

(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?

State Street believes that in addition to reporting counterparty 2 type, the name of the counterparty should be included 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):

No comment.

2.13 Report-submitting entity

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

No comment.

2.14 Broker of counterparty 1

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

No comment.

2.15 Central counterparty

Comments on the data element “central counterparty”:

No comment.

2.16 Clearing member

Comments on the data element "clearing member":

No comment.

2.17 Platform identifier

Comments on the data element "platform identifier":

No comment.

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?

No comment.

Other comments on the data element “inter-affiliate”:

No comment.

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)?

No comment.

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

No comment.

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"?

No comment.

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

No comment.

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?

No comment.

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

No comment.

2.23 Option lockout period

Comments on the data element “option lockout period”:

No comment.

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?

State Street believes that an option premium payment date should be added to take into account that the option premium may sometimes be paid at the end of the transaction. For example, adding the option premium payment date allows differentiation between a standard swaption and a lagging premium swaption (forward paying swaption).

Other comments on the data elements “option premium” and “option premium currency”:

No comment.

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”:

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 Commissions' ("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")), second 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 $29.178 trillion in assets under custody and administration and $2.446 trillion in assets under management as of September 30, 2016, 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 standards which are critical to the safety, soundness, and efficiency of global financial markets. We believe that standardization will be most effective if developed through a close public-private collaboration with the financial services industry, which will bear the primary costs and other burdens of adopting such standards. 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.

First, we support the prescriptive nature of the definitions for the critical OTC derivative data elements in the Consultative Report which will alleviate complexity in an already difficult process of matching trades in dual-sided reporting. In the current regime, problems arise from a lack of clarity around certain data fields where the European Securities and Markets Authority ("ESMA") has issued additional question and answer documents. This lack of clarity is a significant impediment to trade matching. 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.

Second, we do not believe that CPMI and IOSCO have fully accounted for the significant amount of work already in progress by industry. One prominent example is the Enterprise Data Management ("EDM") Council's Financial Interest Business Ontology ("FIBO") effort. FIBO provides a description of the structure and contractual obligations of financial instruments, legal entities and financial processes. This FIBO initiative was undertaken to develop a common language, a.k.a. "Rosetta stone", which takes data sources across repositories without modification and translates them into a common language which can then be aggregated for risk analysis and business process automation. (See http://www.edmcouncil.org/financialbusiness.) State Street participated in a proof of concept of the FIBO effort which proved successful. Although State Street does not endorse a specific utility, we believe CPMI and IOSCO should be aware of such initiatives in order to avoid the duplication of efforts and usage of multiple utilities for specific purposes, which will only increase costs and erode overall data quality in the OTC derivatives market. Harmonization of these initiatives would remove the necessity for overlapping governance, data management and technology implementations globally.

Third, we generally support the use of Legal Entity Identifiers ("LEI") as allowable values for the various data elements. As noted in the Consultative Report, CPMI and IOSCO suggest using LEIs as allowable values in the following data elements: counterparty 1 (reporting counterparty); counterparty 2; report-submitting entity; broker of counterparty 1; central counterparty; and clearing member. Although we are aware that full global adoption of LEIs is still in progress, we believe that continued emphasis on adoption will assist in the global standardization of reporting OTC derivatives.

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 me at smgavell@statestreet.com should you wish to discuss State Street's submission in further detail.