



State Street Corporation

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CPMI Secretariat
Bank for International Settlements
Centralbahnplatz 2
4002 Basel
Switzerland
Via email: cpmi@bis.org

IOSCO Secretariat
International Organization of Securities Commissions
Oquendo 12
28006 Madrid
Spain
Via email: upi@iosco.org

Re: Second Consultative Report - Harmonization of the Unique Product Identifier

Dear Sir or Madam:

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") second consultative report ("Consultative Report") on the harmonization of over-the-counter ("OTC") derivatives data elements using the Unique Product Identifier ("UPI"), with the focus of this Consultative Report being the form, content and granularity of the UPI.¹

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 \$27.786 trillion in assets under custody and administration and \$2.301 trillion in assets under management as of June 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 establishment of global standards for data which describe financial concepts and activities, standards which are becoming increasingly critical to the safety, soundness and efficiency of global financial markets. As previously stated in our response to the first Consultative

¹ CPMI-IOSCO Second Consultative Report - Harmonization of the Unique Product Identifier (August 2016).

Report issued by CPMI and IOSCO, as with other data standards requested by the G20 to improve financial data aggregation, including the Legal Entity Identifier (“LEI”) and the Unique Transaction Identifier, the UPI represents another important milestone towards improved standardization.² We strongly believe, in this respect, that such 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.

We continue to support the initiatives taken by CPMI and IOSCO to develop guidance for a uniform global UPI as a product classification system, and although we do not intend to comment on each question posed in the Consultative Report, our key policy recommendations can be summarized as follows:

- CPMI and IOSCO should develop a **single** free and open source utility with access to the identifier(s) and associated metadata with a common single data dictionary;
- A global governance structure should be developed in conjunction with, and in order to support, the UPI guidance;
- A private utility should be established to store underlying reference data and weights when an OTC product is established based on a custom basket of securities;
- There should be consistency in the identifiers for individual underlying asset classes; and
- The use of ‘unique codes’ will allow for the evolution of products and markets without the prospect of the code breaking down over time.

Support for a free and open source utility

State Street supports the use of a free and open source utility for the creation, management and distribution (identifier and metadata) of the UPI. The benefits of an open source utility are numerous including:

- flexibility for different users with differing requirements to take advantage of the utility, while maintaining standard interfaces;
- improved accountability and easier auditability, as the broad base of open source developers creates transparency in the process;
- enhanced security, based on the fact that increased transparency in open source communities tends to expose flaws more quickly;
- higher quality, stability, reliability and adherence to standards (inoperability) from the enhanced security;
- faster and smoother functionality, as open source deployments are more closely linked to their users and their requirements; and
- overall lower costs, both initially and for ongoing support.

We believe that the free and open source utility should have the ability to link identifiers together, either at a contract level (below a UPI) or at a liquidity level (above a UPI), so that industry has the appropriate infrastructure beyond just those prescribed by various regulatory regimes.

² Available at: <https://www.bis.org/cpmi/publ/comments/d141/statestreet.pdf>.

Moreover, we support a single utility model with a common data dictionary. The single utility model should be capable of supporting the generation of UPIs, International Securities Identification Numbers (“ISINs”) (as mandated under the revised Markets in Financial Instruments Directive and Regulation (“MiFID II/MiFIR”))³, or other more granular levels of identifiers that may be needed for other purposes. As evidenced by ongoing work within the International Organization for Standardization (“ISO”), the Association of National Numbering Agencies (“ANNA”)⁴ and industry participants, a utility model is currently being developed using a modified form of the ISIN for reporting OTC derivatives to trade repositories (“TR”), which industry intends to adopt prior to January 2018. State Street does not endorse a specific utility, but has concerns that multiple utilities for specific purposes, be it the UPI, industry or specific regulatory regimes, 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.

Governance structure should be developed in conjunction with, and in order to support, UPI guidance

As noted in our response to the first Consultative Report, State Street believes that governance is a critical matter which requires immediate attention. Although the CPMI and IOSCO reiterated in the Consultative Report that the governance structure of the UPI will be subject to further work by the Financial Stability Board, we believe governance should be determined in conjunction with the development of guidance for identifiers, such as the UPI. A harmonized UPI is only as valuable as the governance structure on which it is built. It must be governed in such a way so that the foundation on which standards and concepts are built are able to evolve and adopt with the products and markets. The governance structure should clearly define responsibilities for the maintenance, monitoring and enhancements of the UPI.

Additionally, since the UPI is being developed in conjunction with other data standards for OTC derivatives, the CPMI and IOSCO should work in conjunction with other global and national regulatory and supervisory bodies on this issue of governance. We recommend that any initiative for governance be explicit, and from the outset, a public-private collaboration made of a broad set of national authorities, financial institutions and other subject matter experts. As noted in our first UPI response, we believe that the establishment of a governing body should be subject to further consultation with the industry, but the Global Legal Entity Identifier Foundation, established for the LEI, could be an appropriate model.

Additionally, we believe the governance structure described above would greatly facilitate the comprehensive evaluation of the practical implementation of a standardized classification system. As stated previously, industry should look to harmonize efforts around the identification of OTC instruments, which would include a global governance model.

Support for a private utility to store underlying reference data and weights (Question 3)

Question 3: For an OTC derivative product based on a custom basket of securities or assets, please provide your view of the optimal means of representing that OTC derivative product. Do you believe that

³ MiFID II/MiFIR creates a single market for investment services and activities across the European Union and has been applicable since November 2007. The European Securities and Markets Authority has chosen the ISIN as the sole instrument identification standard under MiFID II/MiFIR.

⁴ ANNA is responsible for the infrastructure of the ISIN code.

it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference data? If not, how do you believe that the elements of the custom basket and their risk weights should be reported to a TR?

In the Consultative Report, CPMI and IOSCO provide possible UPI reference data element values for the credit, rates, commodities, equities and foreign exchange ("FX") asset classes. With respect to these data element values, various questions are posed regarding the degree of granularity for identifying the underlying asset(s) or index (indices).

Question 3 requests industry's view of the optimal means of representing an OTC derivative product based on a custom basket of securities or assets, and poses the question of whether it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference. State Street believes that including all of the underlying securities or assets and their risk weights in the UPI reference data is not a practical approach for representing OTC derivative products that are based on a custom basket of securities or assets.

The addition of components and weights to the custom basket will lead to the constant updating of data in the UPI reference data for more complex baskets that change over time or are based upon actively traded portfolios. Issues will arise because when components of the basket are made publicly available, sophisticated players could use this information to determine the parties to a trade, thus undermining the confidentiality of the trade. To alleviate this problem, State Street recommends a private utility to store the underlying reference data and weights, as well as the use of a unique identifier to identify the basket. The unique identifier would signal the basket type, but omit any information which could identify the parties to the trade. Only authorized parties could access information on the private utility storing the underlying reference data.

Support consistency in the identifier for individual underlying asset classes (Question 4)

Question 4: How should underlying assets and reference entities be represented in the UPI data library? Would LEIs be suitable, at least for corporate reference entities? Why or why not? Are there suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

State Street believes that there should be consistency in the identifier used for the underlying assets and reference entities represented in the UPI data library. Specifically, a single, best of breed identifier should be used for each underlying asset type (e.g. a single identifier for credit and a single identifier (whether the same as credit or not) for equities).

Currently there are many identifiers used to define an underlying asset, index or reference credit entity. Some examples of these are: ISINs, Committee on Uniform Security Identification Procedures ("CUSIP") identifier, Stock Exchange Daily Official List ("SEDOL") identifier, Reuters Instrument Code ("RIC") identifier, Markit Reference Entity Database ("RED") codes, proprietary index codes, ISO 4217 (CCY Codes) and exchange tickers.

State Street believes that one identifier should be selected for each asset type to promote consistency throughout the industry. Also, although we take no position on which identifier is best for each asset class, in order to avoid unwarranted complexity, we suggest using an existing identifier that is already commonly used in each asset class. The core issue with regards to the various codes utilized to identify

underlying assets and reference entities is with regards to licensing and the intellectual property of the identifier linked to the redistribution of such an identifier. State Street would welcome the assistance of CPMI, IOSCO and industry experts to collaborate on a common method for these core processing identifiers which encompasses a cost efficient model for the use and redistribution of the identifiers. While we respect a provider's intellectual property as it relates to the metadata of the identifier, the use of the identifier itself should be viewed as a public good.

Support the use of 'unique codes' for UPIs (Question 7)

Question 7: What are the arguments for and against the use of a dummy UPI code or an intelligent UPI code, or having both types of code coexisting?

As noted in the Consultative Report, a UPI code could be structured as a "dummy code" or as an "intelligent code". A dummy code's content has no inherent meaning, with meaning only derived from the associated reference data. An intelligent code, by contrast, would indicate a common characteristic for products in the same manner within each product's UPI code. For example, all equities could have "E" in their UPI code and all FX products would have "F" in their UPI code.

State Street strongly opposes the use of an intelligent code and supports the use of unique (commonly known as "dummy") codes for the UPI. Intelligent codes eventually break down over time and when coupled with the already existing complexity of the underlier, would lead to varying lengths and complexities. Although unique codes may require a technical build, they will not break down over time and the code would be of uniform length. Additionally, unique codes are:

- Precise (Uniqueness creates precision. It is therefore possible to ensure there are no duplicates, which is needed for security verification.);
- Independent (Invariably the underlying data will change. By treating the codes as metadata that points to underlying information, they are independent of the changes.);
- Flexible (Individual jurisdictions have the flexibility to manage and use the codes without having to resort to a central authority.); and
- Adaptable (Potential to leverage some of the technology that is being developed for the "Internet of Things"⁵, based on a set of unique addresses.).

Conclusion

In conclusion, State Street supports CPMI and IOSCO's initiative to harmonize the UPI, and believes that a well-designed standard would be highly valuable for the data governance initiatives already underway. We believe that data harmonization efforts, including the harmonization of the UPI, will only be successful if industry convenes around a single free and open source utility with a common data dictionary and common global governance structure.

Additionally, we recommend that a private utility be created to store the underlying entities for OTC derivatives products based on a custom basket of securities, as this will protect the identification of the

⁵ The "Internet of Things" ("IoT") refers to the ongoing development of the Internet, in which technologies are integrated with devices and sensors, enabling them to send and receive data. IoT is in the early stages of adoption in financial services with its current focus being connecting banks with other industries and its application to digital products and services. Other industries like manufacturing and transportation are leading in IoT implementation efforts.

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underlying parties to the trade. Moreover, we support consistency in the identifier for individual underlying asset classes, along with the use of unique or “dummy” codes for the UPI versus the use of intelligent codes.

Please feel free to contact me at smgavell@statestreet.com should you wish to discuss State Street’s submission in further detail.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stefan M. Gavell', written in a cursive style.

Stefan M. Gavell