



State Street Corporation

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February 24, 2016

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**Re: 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 Board of International Organization of Securities Commissions (IOSCO) consultation (Consultation) to harmonize over-the-counter (OTC) derivatives data elements using the Unique Product Identifier (UPI) to uniquely identify OTC derivatives products that are required to, or may be required to in the future, be reported to trade repositories<sup>1</sup>.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With \$27.508 trillion in assets under custody and administration and \$2.245 trillion in assets under management as of December 31, 2015, 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.

Overall, we believe that the establishment of standards for data that describe or represent important financial concepts and activities is increasingly critical to the safety and efficiency of global financial

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<sup>1</sup> CPMI-IOSCO Consultative Report - Harmonization of the Unique Product Identifier - (December 2015).

markets and for individual institutions such as State Street. The UPI, as with the other standards requested by the G20 to improve financial data aggregation, including the Legal Entity Identifier (LEI) and the Unique Transaction Identifier (UTI), represents another important milestone towards improved standardization. However, we strongly believe 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 in adopting such standards.

State Street strongly supports the CPMI and IOSCO efforts to develop guidance for a uniform global UPI as a product classification system. Additionally, we support the approach of the International Swaps and Derivatives Association (ISDA) symbology initiative, a goal of which is to define common and coherent derivative product codes that can satisfy multiple regulatory and business requirements, beyond the UPI. We believe this is a sensible approach because it provides a prescriptive method for vendors to use. Although supportive of the approach proposed in the Consultation, we have concerns that certain aspects of the proposal require clarification to facilitate practical implementation. We also recognize that additional approaches may be developed or may evolve from existing standards.

## **I. General**

### **a. Risk of fragmentation**

Despite the efforts of the CPMI and IOSCO, and many others, State Street remains concerned there still exists a risk of fragmentation in terms of the proliferation of multiple, different OTC derivatives data elements even as global harmonization efforts move forward. CPMI and IOSCO should consider how to promote an appropriate, “fit for purpose” instrument identifier component that is standard across all national authority requirements. For example, in Europe, the European Securities and Markets Authority (ESMA) has chosen the International Securities Identification Number (ISIN) as the sole instrument identification standard under the revised Markets in Financial Instruments Directive and Regulation (MIFID II/MIFIR). As currently presented, the ISIN is not well-suited for use as an OTC derivative identifier, although improvements to the ISIN could resolve challenges. Current challenges include: issuance time lags; expensive issuance requirements; burdensome restrictions for the use of the data; insufficient flexibility and responsiveness of the fragmented set of national numbering agencies; and technical inadequacies, such as identifier reuse. Although still under review by the European Commission, there is a risk that the MIFID II/MIFIR requirements may not be in harmony with the final global recommendations by the CPMI and IOSCO. In our opinion, harmonization is both important and urgent, and CPMI and IOSCO should strive to identify standards that are both technically robust and operationally suitable for financial institutions as well as for regulatory and supervisory requirements.

### **b. Supportive of free and open source utility**

Also, as a general matter, we are supportive of a free and open source utility for the creation, management, and distribution (identifier and metadata) of a UPI. An open source utility has numerous benefits including: flexibility and freedom; speed of deployment; adherence to standards (interoperability); quality; stability; reliability; security; auditability; cost; and support and accountability. The flexibility and freedom of the open source model makes it easier for different users with differing requirements to take advantage of the utility while maintaining standard interfaces. The broad base of open source developers creates transparency into the process delivering both improved accountability and easier auditability. Security is also enhanced by such transparency, because the open source community exposes flaws more quickly, leading to higher quality and stability. Overall costs are lower both initially and for ongoing support. Open source deployments have historically been faster and smoother since they are more closely linked to their users and their requirements. The utility should have the ability to link identifiers together that could be 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. An international standards body should also be responsible to manage the standards and other aspects of such a global and industry-wide global classification system. We recognize that the construction of an appropriate and durable regime for the UPI may involve some costs, which may require fees up to the point of cost recovery.

## **II. Key concepts**

### **a. Package trades**

The Consultation suggests provisionally that the linkage of a particular transaction to another transaction, as part of a package trade, is an attribute of a transaction, not of a product. It suggests that constituent package transactions could be identified or linked either by a UTI that is structured in such a way that the constituent package transactions are inherently related, or by a separate field in each constituent package transactions report that links the separate reports which represent a package (this field being separate from the UTI.) The Consultation asks whether respondents agree with the approach to the UPI's treatment of package trades (question 4).

As stated in State Street's response to the UTI consultation<sup>2</sup>, we believe that a package transaction should be classified as such using a field separate from the UTI, as this approach would work better for more complex arrangements. Furthermore, we do not believe that the entire package should have one single UTI because by definition, it is comprised of two separate transactions which are viewed and reported as such. We believe that a combination of the UTI and the UPI is the most sensible approach. The UPI should be used to identify that it is a packaged product, and the UTI should be available as a means by which to link the package or package components.

Also, any requirement related to package transactions should provide adequate time and details on how to implement the requirement. This includes details addressing how non-derivative transactions which may be part of a package should be implemented.

## **III. Product classification principles and high-level business specifications**

State Street strongly supports the classification principles and high-level business specifications outlined in the Consultation, which we believe form a strong framework for a product identifier that is standardized, available, and widely utilized throughout the financial services ecosystem, from trade execution and clearing at the time of trade, through settlement of fees, collateral movements, and back office reconciliations, as well as regulatory reporting performed daily for the life of a trade.

While the principles outlined in the Consultation are already comprehensive, we believe the overall framework would be improved by clarifying several of the proposed principles, and adding several more additional principles, as described below.

### **a. Clarification of Consultation principles**

Also as noted below, we believe there should be clarification of the proposed principles in the Consultation including: uniqueness, clarity, scope-neutral, and comprehensiveness.

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<sup>2</sup> CPMI-IOSCO Consultative Report - Harmonization of the Unique Transaction Identifier - (August 2015).

## **1. Uniqueness**

Specifically, the Consultation states, under “uniqueness”, that a “classification system should describe OTC derivative products with sufficient detail and precision to uniquely define a product, but should not be so granular as to describe individual contracts or transactions.” We agree that the vision of the UPI is around the classification of a “product”, but believe that any classification system should have the ability to “link” an instrument to a contract level identifier that is currently missing in the OTC derivative space. This would provide commercial benefits to the industry in trade communication, pricing, netting, and reconciliation. The system should look to bring in the concept of a contract level identifier that can easily be linked into the UPI classification. The UPI classification system should also look to harmonize various reporting regimes (e.g. MiFID, U.S. Securities and Exchange Commission, U.S. Commodity Futures Trading Commission, etc.) which call for various “levels” of identification by requiring the ability to link various identifiers based on increasing or decreasing the metadata attributes of the identifier.

## **2. Clarity**

With regards to clarity, we believe this principle is necessary, but we do not support an algorithmic approach that links values of the identifier to prescribed data elements. It is our view that an industry utility and/or utilities be established within the industry that assign UPIs based on a concept where the UPI maintains no inherent intelligence, but includes full and open access to the required metadata.

## **3. Scope-neutrality**

We strongly agree with the principle of scope-neutrality and would support a cross jurisdictional utility and/or utilities that is not restricted by existing numbering classifications rules that exist today (i.e. the Association of National Numbering Agencies (ANNA)<sup>3</sup>). The implementation of multiple regional utilities will raise issues in assets that have cross jurisdictional players.

## **4. Comprehensiveness**

As for comprehensiveness, the Consultation states that “[t]he classification system should also support enhanced market transparency, improved risk management and increased operational efficiency.” We fully support this as a principle and strongly believe that we should look for a set of identifiers that describe an OTC derivative at the product level, as well as the contract level, to fully gain the operational benefits. The current business environment lacks a contract level identifier that would allow for “real” enhancements to the core operational processes such as reconciliation, pricing, and netting where the UPI is a level too high and the UTI a level too low given the block and allocation trading by most buy-side institutions.

## **b. Additional principles**

### **1. Central creation**

We believe that in order to meet new requirements, improve efficiency and decrease operational risks, the industry requires central creation of various identifiers that will represent the classifications for OTC derivatives.

### **2. Reasonable cost**

We believe that the cost of issuance, access, and processing of the utility should be reasonable and reflect the cost of operation.

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<sup>3</sup> ANNA is responsible for the infrastructure of the ISIN code.

### **3. Reliability**

We believe that generation of a UPI should be easy and repeatable for users wherever and however they operate, and that the technologies involved can be depended upon highly and equally by both those creating and those using the UPI.

### **4. Open source**

We believe that access, distribution, redistribution of the identifier and the data making up the identifier should be universal and unrestricted by license.

### **5. Extensible**

We believe that not only should the utility be able to extend to new OTC products but should be quickly adaptable to other regulatory and industry requirements of identifier classifications for future uses, such as liquidity determination or contract level identification.

### **6. Timeliness**

We believe that the identifier classification should be generated at the most appropriate point of the workflow to ensure that access to the identifier allows benefits to the post execution lifecycle processing. In most cases, this would be at the time of execution, but could also be at the time of a post-trade event, such as central counterparty (CCP) cash flow netting where two separate positions become one when the economics become equivalent.

## **IV. Proposed product classification systems**

### **a. Granularity for product classification**

The Consultation states that results from the study presented in Annex 4 suggest that data elements which describe the instrument, together with data elements that describe and identify the underlier, may provide an optimal level of granularity for product classification. While we agree that this approach provides the requisite granularity, we think there currently exists an industry gap in defining the attributes that make up a position. Specifically, the current business model lacks a classification system that allows the ease of calculating a position, price, or netting a position. The standard definition of an OTC position is that the required data elements would allow a CCP to net that position (risk free) or value a notional of one. The current processes in this space typically center on a generated identification number that is created at the firm or CCP level and not readily usable across the post-trade ecosystem. This results in a massive data management process that is fraught with risk and cost which could be simplified with a standard contract level identifier that allows the industry to source the identifier and metadata for post-trade processing. Furthermore, we believe there should be a partnership between the industry market participants and industry groups, such as ISDA and the International Organization for Standardization (ISO), to define the data model to satisfy the definition of an OTC position to streamline the post-trade processes, such as trade notification, pricing, reconciliation, and margin management.

Any additional identification classification system(s) that do not take this into account will only be additive if not inclusive in its design to truly transform the industry beyond regulatory reporting needs. The reliance on individual firm data management of a contract level data creates issues in the current post-trade environment.

Also, we believe there should be prescriptive definitions of data elements. For example, in relation to maturity date, the Consultation provides examples which use terms such as “maturity” and “tenor” without explicit definitions. A twenty-year swap at the time of a trade is no longer a twenty-year swap

five years from the time of the trade from a risk or liquidity perspective. Without explicit definitions, there is the risk of confusion.

## **b. Identifier with underlier**

The Consultation states that two levels of granularity are being considered for the OTC derivatives product classification system, one with a detailed identifier for the specific underlier and one without an identifier for the underlier. The Consultation asks for the pros and cons in each of these considered levels of granularity (question 12).

State Street strongly supports a standardized universal product identifier that includes an identification of the underlier, and agrees that such a classification system provides the optimal level of granularity. We believe identification of the underlier is a critical characteristic of a derivative product, and that adopting a classification system without identifying the underlier would significantly compromise the value of a universal product identifier, particularly for regulatory analysis of systemic risks. Also, as noted previously, we believe that identifiers for underliers should be free and open source and available to all users with open redistribution rights (question 13).

## **V. Governance structure and administration of the UPI**

Finally, although the CPMI and IOSCO have indicated that the governance structure will be addressed by further work by the Financial Stability Board (FSB), we believe that the following points should be considered. Financial products and markets undergo constant innovation in terms of both their fundamental characteristics and the technologies that they use or by which they are transacted. A harmonized UPI will be valuable, but it must be governed in such a way that the standards and concepts on which it is built are able to evolve and adapt with the products and the markets. A failure to keep the UPI updated will diminish its usefulness. There must be clear responsibility for the maintenance, monitoring, and ready enhancement of the UPI as warranted. Moreover, as the UPI is being proposed in conjunction with a large number of other data element standards, including the UTI and the number of data elements associated with OTC derivatives, we encourage the CPMI and IOSCO, in conjunction with other regulatory agencies, to consider the creation of an appropriate governance entity, whether new or existing. Taken in combination with the other financial standards under consideration by IOSCO, CPMI, and other national and global regulatory and supervisory organizations, the issue of governance is urgent. Our opinion is that any such initiative should be explicit, and from the outset, a public-private collaboration made of a broad set of national authorities and financial institutions and experts. The body established for the LEI could be an appropriate model for such governance, but any proposal should be subject to further consultation with the industry. Additionally, we believe the governance structure described above would greatly facilitate the comprehensive evaluation of the practical implementation of a standardized classification system.

## **VI. Private sector “use cases”**

At the February 10, 2016 Washington, DC meeting between market participants and the CPMI and IOSCO, it was requested that the industry provide use cases for how the UPI and other harmonization working group items may be created in a way that is beneficial to financial institutions. We strongly support this initiative, and encourage policymakers to consult further with the private sector on this matter.

In our opinion, well-designed standards for instruments and classifications, and standards for representing products would be highly valuable for the data governance and stewardship activities that are underway. Specifically, harmonized definitions would facilitate the organization of risk-related data,

and thus provide opportunities to improve risk data aggregation and analysis. Conversely, multiple and unsuitable identifier standards will drive even greater complexity, and consequent significant cost burden and increased risk, if there are requirements to maintain equivalent data in proliferating forms across national authorities and jurisdictions.

In conclusion, State Street is supportive of the standardization of the UPI, as global standards will improve data quality, management, and efficiency. Please feel free to contact me at [dmblaszkowsky@statestreet.com](mailto:dmblaszkowsky@statestreet.com) should you wish to discuss State Street's submission in further detail.

Sincerely,

A handwritten signature in black ink, appearing to read "David M. Blaszkowsky". The signature is fluid and cursive, with the first name "David" being the most prominent.

David M. Blaszkowsky