CME Group response to the CPMI-IOSCO consultative report on ‘Harmonisation of the Unique Transaction Identifier (UTI) – September 2015

CME Group welcomes the opportunity to provide input to the CPMI-IOSCO consultative report on ‘Harmonisation of the Unique Transaction Identifier (UTI). Please find below our response to each question.

Question 1:

Are there jurisdictional differences about what is a reportable transaction that respondents believe will cause challenges for UTI generation? Please describe the differences and challenges.

CME - We are of the view that there are a number of instances of jurisdictional difference.

- While not related to the UTI generation; the use of Unique Swap Identifier (USI) in the US compared to UTI outside of the US must be addressed in any UTI guidance. CME supports a position to consolidate to UTI globally.

- The inclusion of ETD transactions for Europe presents a number of distinct challenges especially with respect to certain lifecycle events that can happen on a trade, for example, the reporting of give-ups.

- The different models in clearing that apply in various jurisdictions is another example. The European principal model, where a distinct trade exists between the client and the clearing member and another from the clearing member to the CCP, has more legs than in the U.S. agency model, where the trade is between the client and the CCP. The additional layer creates reporting challenges pertaining to UTI generation.

- What constitutes a reportable transaction with respect to the underlying varies from jurisdiction to jurisdiction. There is currently no harmonised list of defined derivatives and the treatment of FX Swaps and FX Forwards remains inconsistent.

- The counterparty’s perspective can be jurisdictionally different. The current reporting structure in the US prescribes a reporting hierarchy which concentrates the burden of reporting within larger, more central components of market infrastructure. In contrast, the European approach, delegation aside, leaves the burden with each individual counterparty, regardless of its size. This notable lack of hierarchy in Europe has had a direct and detrimental impact to the UTI generation, demonstrated by low trade UTI pairing rates at the Trade Repositories.
**Question 2:**

Are there further harmonisations (that could potentially be applied) to the rules that define which transactions are reportable that would reduce or eliminate the challenges around generating UTIs? In answering this question, please also describe the challenge(s) and identify the jurisdiction(s).

CME – Yes, as mentioned in question 1, alignment of reporting hierarchies and product scopes as examples would have an immediate positive affect on UTI generation

**Question 3:**

Do respondents agree with the proposed approach to UTI allocation for package transactions? Under what circumstances should the entire package have a single UTI?

CME – We agree the approach; however we would like to point out that the treatment distinction may occur between cleared and non-cleared. For a cleared package trade, the UTIs should be assigned at the leg level with a separate ID that links them.

For a non-cleared package, a single UTI would be recommended where appropriate for the market. We note certain instances where a single UTI is not feasible.

One illustrative example is a FX Swap which involves a purchase and sale of one currency on two different dates and the sale and purchase of another on the same two different dates. Each leg is executed as a spot FX trade evidenced by two separate un-linked confirmations, as a result, it is difficult to produce a UTI for FX Swap transactions.

Another example would be US invoice swap where only one of the legs is reportable to the regulator.

**Question 4:**

Are there other approaches to UTI allocation for package transactions that should be considered? If so, please describe.

CME – See response to question 3.

**Question 5:**

Which, if any, of the options for identifying and linking components of packages do you favour and why? In particular, please consider the extent to which the options achieve traceability?

CME – We would prefer option 2 on the basis it is widely used today and does not require specific logic and rules for UTI assignment on one trade type.
**Question 6:**

Do you see any difficulties in implementing any of the options for identifying and linking components of packages? If so, please describe.

CME – The challenge with option 1 is the need to have special rules for assigning the UTI (and subsequently consuming) for just one trade type. The challenge with option 3 is that a robust UPI system does not yet exist and the universe of potential package trades could stress any UPI system.

**Question 7:**

Please identify and describe any alternative approaches for identifying and linking components of packages that should be considered, focusing in particular on any impact they would have on UTI generation.

CME – No response

**Question 8:**

Is the proposed division between events that should and should not require a new UTI complete and correct (please refer to the proposal described in this section and the table in Section 8)? If not, please provide other cases and explain why they should or should not lead to a new UTI being required.

CME – We agree with the proposals. We would also include average pricing events and coupon blending (many-to-many) as events in which new UTI’s would be created.

**Question 9:**

Different jurisdictions may have different rules (including case law) defining which events would require a new UTI to be created. Are respondents aware of any such differences? What difficulties do these differences create in the creation of UTIs? If jurisdictions’ approaches to when a new UTI is required cannot be harmonised, are there other steps that could be taken to avoid double-counting of transactions reported to different TRs?

CME – No response
**Question 10:**
Do respondents agree with the analysis of linking related transactions through lifecycle events?

CME – We strongly support the concept of linking related transactions. However, we feel the analysis did not produce any viable options consistent with market structures and capabilities.

**Question 11:**
Are there other cases to be considered in the analysis of linking related transactions through lifecycle events?

CME – We propose a variation of option 2 where only the previous UTI is reported as part of the successor transaction(s). The aspect of including the successor transaction UTI in the predecessor transaction is both unnecessary and not viable.

**Question 12:**
Are there practical difficulties that would arise from putting a successor UTI on a transaction that had been terminated? Such difficulties could arise in the reporting, the processing by the TR or the analysis by the authorities.

CME – Yes. When a transaction is due to be terminated the Action Type ‘cancel’ is applied to the UTI. For a successor UTI to be connected to the cancelled message the successor UTI may be included in the comments ‘free text’ field of the cancelled UTI. However, linking of these is likely to be difficult.

**Question 13:**
Can respondents suggest other ways of achieving links between reports subject to lifecycle events that meet the characteristic to provide an audit trail?

CME – See response to question 11.

**Question 14:**
Which of the proposed solutions to linking reports subject to lifecycle events do you favour? Do you see any difficulties in implementing any of the proposed solutions, and if so, what are they?
CME – We do not favour any options as they have been presented (see response to question 11 for an alternative to option 2).

Option 1 – this is too complicated, would be costly to support and likely to be unable to address all cases.

Option 2 – would require extensive amount of amendments to previously reported transactions with no added benefit as all the linking details would be present in the subsequent transaction(s).

Option 3 – inapplicable as this is not how the market works. Additionally this would not be scalable.

Option 4 – the creation and retention of a separate reference table for each counterparty reported each day to Trade Repositories would be inefficient and cumbersome. An operational risk element would be introduced as there potentially could be a corruption of the reference tables and implementation/population would be very challenging.

**Question 15:**

Can respondents suggest UTI constructs that would achieve embedding the link information about lifecycle events into the UTI while still compliant with the authorities’ desired characteristics for the UTI?

CME – Many to one and many to many are not areas that are feasible for linking.

**Question 16:**

Are there additional issues that should be taken into account in considering the responsibility for generating UTIs?

CME - CCPs are counterparties to all cleared and intended to be cleared trades and are holders of master record. They have established connectivity with their counterparties and a rich heritage in reporting accurately, in vast volume to regulators and counterparties alike. Through the novation process, the CCP creates the cleared legs between itself and the counterparties and as the central infrastructure also witnesses and facilitates the majority of lifecycle events. CCP’s are therefore best placed to issue UTI’s on such legs and any modifications.

Under EMIR reporting there has been a poor record of reporting entities constructing UTIs from algorithms provided by their CCP counterparty. There have been issues over counterparties using different versions and interpretations of the algorithm and a dependency on systems providers to maintain the latest version and provide the
construction accordingly. In addition, many of the reporting entities construct UTIs immediately upon receipt of trade details but some CCPs have been slow in including the UTI in the cleared confirm messages which hinders the reporting parties, often clearing members from reconciling the trade quickly and prior to submission to the TRs.

**Question 17:**

Would it be beneficial if the guidance did not provide for the harmonisation of rules for the responsibility for UTI generation with respect to trades that are not cross-border? Would there be disadvantages to this approach? Does the analysis of this idea depend on which option is used for cross-border trades?

CME – We support an approach which provides guidance which applies to cross-border trades.

**Question 18:**

Do respondents agree with the high-level assessment of the Option 1 proposal for the responsibility for generating UTIs? Please explain why or why not.

CME – Yes we agree.

**Question 19:**

Are there additional considerations relevant to the Option 1 proposal for the responsibility for generating UTIs? If so, please describe.

CME – Beyond our support for CCPs to create UTIs for all cleared trade reporting, we also believe that for non-cleared trades there should be a simple standard where if they are executed on a platform, the platform itself should create the UTI and if done off a facility then the seller always assigns the UTI (unless agreed otherwise by the counterparties). As mentioned in response to question 1 there are distinct differences between jurisdictions regarding UTI generation hierarchy.

In addition we believe that CCPs should create the UTI for the leg of the trade between the clearing member and its client. The nature of trading of OTCD, between and the sell and buy sides is changing fast. Under the regulatory reporting mandates of DFA, EMIR and similar regimes globally, most OTCDs are or will be traded in an automated fashion and be affirmed or submitted for clearing. This allows for the CCPs to assign UTIs to all OTCD that are cleared and intended to be cleared including those between clearing members and their clients. The topic is quite complicated and we at CME Group would like the opportunity to discuss this further with CPMI-IOSOC.
Question 20:
Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?

CME – Provided that option 1 is implemented and the UTI construction approach is harmonized, then there should not be a problem of enforceability as the approach will be universal.

Question 21:
What are respondents’ views on the proposed Option 1 hierarchy for the responsibility for generating UTIs? Are the steps necessary and sufficient? Are they sufficiently defined? Are there alternative ways of achieving Step 6?

CME – We generally support the option 1 hierarchy with suggested changes to the order of steps where the process begins with step 2 and then proceeds to steps 3, 4, 6 and then 5 and ignoring 1 altogether.

Question 22:
Is it desirable to include the sort of flexibility represented by Steps 1–5? If so, where in the hierarchy should the flexibility be provided (eg as the first step in the hierarchy or further down the waterfall)?

CME – We do not agree that there should be any flexibility; the process of UTI generation requires explicit guidance and clarity to ensure success.

The history of reporting under EMIR has proven that in very few cases counterparties have agreed who would generate the UTI. The market has asked for explicit, enforceable guidance akin to that of the US regime.

Question 23:
Can respondents provide an alternative set of UTI generation steps for the proposed Option 1 hierarchy for the responsibility for generating UTIs that meet all of the characteristics set out in Section 2?

CME – No response
**Question 24:**

Does the proposed Option 1 hierarchy for the responsibility for generating UTIs work across different reporting jurisdictions, particularly considering differences such as single-sided and double-sided reporting?

CME – Yes, it would be expected to work universally.

**Question 25:**

Do respondents agree with the high-level assessment of the Option 2 proposal for the responsibility for generating UTIs? Please explain why or why not.

CME – CME does not support Option 2 because we favour explicit rules to remove reporting ambiguity and potential for greater reporting errors.

**Question 26:**

What are respondents’ views on the feasibility of the Option 2 proposal to the responsibility for generating UTIs? Are there particular issues for respondents that operate in more than one jurisdiction? How serious is the possible ambiguity in Option 2 and are there efficient and suitable workarounds?

CME – Although conceptually feasible, and perhaps favoured by a small minority, we anticipate widespread challenges to accurately and consistently create the correct precise UTI.

**Question 27:**

Are there additional considerations relevant to the Option 2 proposal for the responsibility for generating UTIs? If so, please describe.

CME – See response to question 25

**Question 28:**

Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?

CME – See response to question 25
**Question 29:**

What are respondents’ views on the possible rules for the generation of UTIs that meet the compatibility approach of Option 2? Are there any additional rules that should be considered to meet the compatibility approach?

CME – See response to question 25

**Question 30:**

Do respondents agree with the assessment of the Option 3 approach for the responsibility for generating UTIs?

CME – Although conceptually feasible, and perhaps favoured by a small minority, we anticipate widespread challenges to accurately and consistently create the correct precise UTI. The history of trade reporting in the EU has shown that where no hard and fast rules are in place there is confusion between the parties to a trade as to who is to generate the UTI. It is beholden on each party to reconcile all terms of the trade including the UTI prior to submission to its respective favoured trade repository but, in reality, few trades are reconciled. Indeed there is no established procedure for it in many asset classes and on many trading venues. Further, not all trading venues have agreed with their participants a policy of reporting.

Where clearing takes place, for example for ETD and cleared OTCD, and the UTI is issued on a confirmation either as a real time trade feed or as a report, we see better pairing rates within and across TRs than where the UTI is constructed by the counterparty to the CCP from an algorithm. We know of multiple, recurring errors where the constructing party uses the wrong LEI of the CCP, which is of course incorporated in the UTI, uses the wrong version of the algorithm or constructs the UTI before trades are ‘given-up’ or ‘taken-up’

In addition, in the bi-lateral market, where a convention of UTI issuance has not been agreed the pairing rates are lower than for the markets where a set of rules or a convention in place.

The situation is compounded in the un-cleared OTCD market where trades are dealt over-the-counter especially in the FX derivatives market.
**Question 31:**

Are there particular challenges for authorities in monitoring compliance with any of the options for the responsibility for generating UTIs?

CME – Yes. In a scenario where two parties who have independently created the UTIs and they do not match it is imperative that the UTI namespace component is retained and used universally for investigation.

**Question 32:**

Considering all three options presented for the responsibility for generating UTIs, do respondents see other suitable solutions meeting the characteristics set out in Section 2?

CME – No, we fully support option 1.

**Question 33:**

Which option for the responsibility for generating UTIs do you regard as preferable? Why is this? What would be the disadvantages to you if your non-preferred option was chosen?

CME – We fully support option 1.

**Question 34:**

Is the assessment about timing for UTI generation correct? Are there examples of timing requirements from authorities that are incompatible with other elements of the proposed UTI generation approach? If so, please describe them.

CME – Yes, we support the assessment about timing for UTI generation. The view could perhaps be enhanced to emphasize the creation of the UTI as the time of execution and/or clearing when possible as the preferred standard.

It should be noted that we do not support the suggestion of TR generated UTI’s suggested in the footnote on page 20. These should be generated through use of the UTI hierarchy.
Question 35:

Do respondents agree with the proposed overall approach to UTI structure and format? If not, please suggest alternatives that meet the characteristics?

CME – We note that in section 2, the concept of ‘neutrality’ is presented and we support that. However to be clear, when stated in section 4.1 that the “UTI structure and format should not constrain which entity should be responsible for the generation of the UTI” that it can be read to suggest that there would be a lack of clarity for any waterfall of who creates. CME does support the clear definition of responsible party for creation of UTI. Other than this point of clarification, CME agrees with the proposed overall approach to UTI structure and format.

Question 36:

Which of these possible UTI components, if any, are important and why? Is it necessary for the UTI to have any of these components?

CME – We are not in favour of including any of the proposed UTI components. We prefer a system whereby these elements are represented in distinct fields. One notable exception is that of the namespace/Mint element as discussed previously.

CME would favour and advocate a more simplistic approach, requiring namespace/Mint element followed by the trade identifier.

Question 37:

Would it be useful or necessary to include check digit(s) in the UTI? Why?

CME – No, we view this as superfluous.

Question 38:

Which components, if any, should be included in the UTI? Which components, if any, should be used in UTI construction but not appear in the UTI? In answering this question, consider both the components listed in the table above or suggest other components as necessary. Please explain how the particular components contribute towards meeting the characteristics set out in Section 2.
CME – While the entity creating the UTI may leverage one or more of these elements to derive its UTI, there should not be a prescription on any of them to be included in the structure with the exception of the namespace/Mint element as discussed.

**Question 39:**

Should the UTI be solely a dummy code, i.e. a value that contains no embedded intelligence? Why or why not? Assuming that other data elements regarding a transaction (e.g. the identification of the counterparties, the date and time of execution etc.) will be captured by the report to the TR, is it necessary to reflect such elements in the UTI?

CME – While the code may have some deterministic elements by the generating party, this should not be disclosed externally and should be viewed as a dummy code, other than the prefix/namespace.

**Question 40:**

Should the details of how to construct the ID value be defined and, if so, what approach (e.g. UUID) should be used?

CME – We do not support a model where the ID construction is prescribed.

**Question 41:**

How important will it be to be able to distinguish “new” UTIs from “legacy” UTIs? Assuming that the trade report includes the date and time of execution, would it be necessary to embed the indication in the UTI itself or should the indication be explicit in a separate field?

CME – UTIs will need to be identified as new or legacy given that the submissions into TRs, which reference a UTI, will be marked as new or an amendment to an existing record.

**Question 42:**

Is it necessary or practical for the UTI to include a Mint field? If so, is the use of the LEI appropriate for the Mint field in the UTI? Are there other values that could be considered for this? What issues would arise in this case? How should cases where the Mint entity doesn’t have an LEI be handled?

CME – It is both necessary and practical to include a Mint value in the UTI generation; however it should be embedded as the prefix and not as a separate field. This ensures complete uniqueness across all reporting parties. All parties who are generating UTIs should be required to use LEIs, however use of the namespace element would suffice for those already doing so.
Question 43:
What issues would arise from using the suffix UTI component to link the reports of components of a package?

CME – We are concerned with the variability in how UTIs would be created and processed. We prefer the concept of prior UTI; block UTI and/or event UTI to link trades.

Question 44:
Will including or not including certain components set out above in the UTI require changes to respondents’ systems or other systems on which you are dependent? How much change?

CME – Yes, including elements in the proposal of this section would create significant impact.

Question 45:
Are there any issues in having an “intelligent” UTI? What are respondents’ views on the potential solutions to these issues? Are there alternative ways of dealing with this?

CME – We support the use of LEIs or the namespace element as a prefix, but the remainder of the UTI should be represented as a dummy code.

Question 46:
Can respondents suggest algorithms that would achieve the Option 3 approach to generating the UTI?

CME – We do not support option 3

Question 47:
What are respondents’ views on the lengths of the various potential components of the UTI (assuming that they are included directly in the UTI) and hence the length of the overall UTI?

CME – We agree with the character set defined on the paper. Our preference would be to prescribe a max length for the UTI component that works across all jurisdictions. Currently the maximum supported is 52 and that includes the namespace/prefix. We would like that to be increased to 75 which would include the prefix.
**Question 48:**
Should the UTI be case-sensitive (allowing for upper- and lower-case characters to be regarded as distinct)? Should the UTI avoid using certain alphanumeric characters that resemble others? For example, do you think it advisable for the UTI system to avoid using the digits “0” and “1” so as to avoid confusion with the letters “O” and “I” (or vice versa)?

CME – We support the use of any characters supported by the ASCII character set. We do not want any other restrictions.

**Question 49:**
Should other characters be allowed in the UTI beyond those proposed? If so, which ones and why do you recommend them? Could all jurisdictions and languages readily accommodate these characters?

CME – Same as the response to question 48.

**Question 50:**
Should separators between different component parts of the UTI be used? Why or why not? If so, which separators and why do you recommend them?

CME – We can reserve the use of the first 20 bytes for the Prefix. Since our proposal has been the use of LEI as a prefix, we don’t see a need for separators.

**Question 51:**
Should the length of UTI be of fixed or should only the maximum length be indicated?

CME- We prefer a variable length up to a certain maximum length. Please also refer to our answer for question 48.

**Question 52:**
Do respondents agree with the proposed implementation approach? Is there a risk that a newly generated UTI would have the same value as an existing UTI as a result of these proposals? Is it possible to estimate the size of this risk? What problems do respondents see regarding “legacy” UTIs under this approach?

CME – With the proposal we (CME) have outlined, we do not see a risk with clashing with the legacy UTI.
Question 53:

Are the descriptions of lifecycle events complete and sufficiently defined? In particular, are there differences between novations and assignments that are not captured in the table and which are significant for UTI generation? Are the conclusions as to when a new UTI is required correct?

CME – We may want to consider including average pricing as a life cycle event.

END