ABBL response to the IOSCO consultation on Harmonisation of the Unique Transaction Identifier (UTI)

Information about the ABBL:
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Key comments

The Luxembourg Banking Association (ABBL) is pleased to be able to share its key considerations on this consultation paper. On the other hand, it regrets that priority has not been given to the common definition or regulatory principles to ensure a unique process to create UTI. The lack of a predefined process to grant UTI in the EU has led to much confusion amongst our members and market participants. Poor quality of information in the data collected by Trade Repositories (TR) are said to match as little as 1%. It appears that basic parameters like who will choose the UTI, which counterparty has the “power” to propose its numbering have been left to the market which proves inadequate, notably at the start of the EMIR regulation where such concepts were unheard of.

The ABBL would plead in favour of a coherent approach at global level, notably because operators may be present in several regions and have to report to TRs that shall offer an easy access to authorities. A convergence in the UTI will in our view improve the readability of reported data, which in turn will offer supervisory and regulatory authorities a better assessment upon which to base future regulations.

1 The Luxembourg Banking Association (ABBL) is the professional organisation representing the majority of banks and other financial intermediaries established in Luxembourg. Its purpose lies in defending and fostering the professional interests of its members. As such, it acts as the voice of the whole sector on various matters in both national and international organisations. The ABBL counts amongst its members’ universal banks, covered bonds issuing banks, public banks, other professionals of the financial sector (PSF), financial service providers and ancillary service providers to the financial industry.
Responses to specific questions

**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.

Although solutions are gradually emerging, we consider that there are differences, notably in the remit of currency derivatives where the local application of EMIR diverged across EU countries with some qualifying FxSwap either from a two-day maturity in some countries, or from a seven-day maturity in other countries.

We were surprised to realize that depending on the country and depending on the product, the UTI could be generated only by one counterparty without coordination.

**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).

Contrary to other regions like the US, in the EU the EMIR regulation implies that all derivatives trades have to be reported by the two concerned entities. That has proven complex to manage. Often there were issues regarding the quality of data and among key concerns the ability to match two legs of a same transaction, especially when reported at 2 different TRs. Thus an alternative to the UTI may be to rely on a clear and predetermined process of who is reporting through a single-sided reporting mechanism. An idea to ensure better quality may be to require harmonization to be first applied to the same “maturity reporting rules” to all countries.

**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?

With the view to manage the cost and ease of operations in this complex environment, we think that the entities should have the choice, either to report package transactions as one transaction with a single UTI, or to report them with as many UTIs. As there are some
components inside a package, there is not a standardized way to manage these deals among our counterparties. Entities should be able to report transactions the same way they are confirmed/affirmed (as the confirmation statement). If an UTI was to be attributed at component level there would be a need to ensure a link with the entire package to which it belongs.

**Question 4:** Are there other approaches to UTI allocation for package transactions that should be considered? If so, please describe.

From an EU perspective these “other approaches” are likely to be marginal.

**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?

What primes in our view is to ensure that there exist one single approach that is simple to implement and trace. For the following reasons, we consider that only option 1 of the UTI structure meets the test:

- Using the UTI structure is working only on one field. Matching on one field is always easier than matching on multi-fields.
- In our understanding UPI is to classify product types. Extending is to package identification leads to increased complexity of this field.
- Using a non-existing field means that all information systems will have to store it (it means cost), and additionally it increases complexity because of multi-fields matching.

Option 2? appears workable as well but would in many instances require additional linkage between banks different departments. Option 3 is not meeting the test.

**Question 6:** Do you see any difficulties in implementing any of the proposed options for identifying and linking components of packages? If so, please describe.

We do not see major difficulties. In any case adaptations of systems and procedures are required and notably adaptation of the EMIR reporting/reconciliation tools in many instances.

**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.

What is of prime importance is to ensure that there is a reliable and known process; the decision shall at the very latest be left to operators during the matching process.

**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.

The division between events that should and should not require a new UTI as presented in the section 3.3 is correct. To ensure a high level of traceability all contractual events but for early termination should create new transactions and consequently new UTIs. This is consistent with all the examples mentioned in section 3.3. However this approach may create a huge number of UTIs that may in the end create more noise than useful information, but that may be a price to pay for a robust system.

Regarding the table of lifecycle events (Section 8), a partial unwind or a full unwind does not always produce a new transaction but a modification (partial unwind) or a liquidation (full unwind) of the existing transaction. In this case, there won't be a new UTI for the transaction offsetting the position. It depends on the way the unwinding is confirmed by the counterparties (new transaction offsetting the first transaction) and also on how the managing systems treat this type of events.

**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?

We are not aware of major differences across jurisdictions, much having being left to market operators. Probably that an easy way out would be to ensure that single-sided reporting is authorised across all jurisdictions would increase protection against multiple reportings of a same transaction. Alternatively, regulatory rules may impose which counterparty or which cases
trigger the creation of a new UTI.

**Question 10:** Do respondents agree with the analysis of linking related transactions through lifecycle events?

We may agree with the approach, but it may as well be extremely complex to transfer into real operational life.

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

No.

**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.

Yes, some systems will not allow “to rename” a transaction that is already closed/terminated because of database integrity requirements or product life cycle. We expect that this proposal may conflict with the new ESMA level II reporting requirements by which TRs may only accept new transactions, thus not changes in UTIs.

**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?

Having a separate table seems to be a good solution and does not have an impact on the matching process.

**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?

We are clearly in favour of option iv.
**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?

No specific views.

**Question 16:** Are there additional issues that should be taken into account in considering the responsibility for generating UTIs?

The Association thinks that the responsibility for generating UTIs should be consistent with the responsibility of producing the reporting to the Trade-Repositories. The entity that delegates its EMIR reporting should not generate the UTI, or regulations may shift to the authorization of a single sided reporting what will as well solve the issue. Otherwise regulation may determine who is responsible by default.

**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?

Our preferred approach is number 3, while at the same time we consider as mentioned above that consistency at regional and preferably global level is an objective to achieve. Option 1 appears appealing in that respect and may not be in contradiction with option 3.

**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.

We agree.

**Question 19:** Are there additional considerations relevant to the Option 1 proposal for the responsibility for generating UTIs? If so, please describe.

**Question 20:** Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?
Answer 19 & 20: No, rules shall be the same for all jurisdictions

**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 defined well-enough? Are there alternative ways of achieving Step 6?

The steps are necessary and sufficient but do not take into consideration the single or dual-sided nature of the reporting. This said, we think that they are in an appropriate order. However step 6 seems complex and costly and should be avoided as far as possible through an agreement between counterparties.

We would like to remind that deals which are not traded on an organised trading platform nor cleared, nor electronically confirmed, imply that generating the UTIs will take some extra-time and the entities will have some difficulties to meet the timing requirement for the reporting (J+1 23h59 for 5/11 EMIR reporting).

**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?

Yes (for 1 and 5).

**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?

No specific views.

**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?

We would advise the harmonisation group to implement the harmonisation of UTI at the same time in every jurisdiction in order to avoid that transactions should not be reported at all or that
transactions should be reported many times- Due care has to be addressed to that issue.

**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.

Yes, we agree with the high-level assessment of the Option 2 proposal and strongly support the remark on ‘the easy and timely generation’. We expect that this option may inevitably generate some disputes among counterparties due to the ambiguity and the difficulties for entities to know every jurisdiction rules.

**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?

Option 2 appears heavy and complex to implement.

**Question 27:** Are there additional considerations relevant to the Option 2 proposal for the responsibility for generating UTIs? If so, please describe.

The Option 2 proposal should also deal with the jurisdictions that do not impose UTI generation. For the deals between a counterparty outside DFA / EMIR and a counterparty inside DFA/EMIR (e.g. between Switzerland and Luxembourg), the default rule should be that it is the counterparty inside DFA/EMIR that generates the UTI.

**Question 28:** Is a problem of enforceability created if the UTI was generated by an entity outside the jurisdiction of one of the counterparties?

Not to our knowledge, but coherence with the framework shall be ensured.

**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?
N/a. No additional rules shall be considered unless the process of changing the UTI processes are concerned. In this case a question on the responsibility and potential conflicts with local regulators may arise.

**Question 30:** Do respondents agree with the assessment of the Option 3 approach for the responsibility for generating UTIs?

It seems sound but may be especially costly for some (above all smaller) entities.

**Question 31:** Are there particular challenges for authorities in monitoring compliance with any of the options for the responsibility for generating UTIs?

There may be challenges notably because authorities may have to check consistencies of rules ex ante.

**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?

No, option 3 seems to be the most robust solution, but it may be complex to implement for smaller institutions.

**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?

Clearly the option 3 seems to present the most robust solution, but as said above it may be more complex to implement and may present some rigidities. Option 2 definitely is to be discarded.

**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.

In our understanding the assessment is correct.
UTI generation should be generated no later than the confirmation statement in order to be compliant with the timing requirements from authorities.

**Question 35:** Do respondents agree with the proposed overall approach to UTI structure and format? If not, please suggest alternatives that meet the characteristics?

Yes, we agree.

**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?

From our point of view the following components are important: CP1, Transaction date, which are already generated for EMIR reporting. Additionally, we see the Transaction ID of the trade given by the UTI generating CP and a package suffix may be required.

**Question 37:** Would it be useful or necessary to include check digit(s) in the UTI? Why?

This is not necessary.

It could be useful to validate the number, as crosscheck.

**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.

The Association thinks that the following components should be used and be part of the UTI:

- LEI: of the UTI-generating party – assuming that a UTI-generation party has a valid LEI available
- Transaction Date - According to: ISO 8601 (i.e. 20150921)
- ID - UTI-generating party has to make sure to transfer the ID to the counterpart in time.

**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?

The UTI should be an intelligent code with details, known on both sides of a trade in order to allow all reporting participants the creation of the UTI by itself. However, realistically that option has operational drawbacks. The UTI should not be too complex to manage and due care should be attributed to the sometimes sensitive nature of the information.

**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?

The details of the generation algorithm have to be provided in order to be sure that all participants will generate the same ID at any time.

Looking for other solutions, we can imagine that the authorities put in place a service where all participants can order new UTIs. And why not an API where IT services can connect their systems (Confirmation platforms, Dealing platforms, etc…) and generate their IDs. But these are new developments that may not be supported across the board.

**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?

Not important in our point of view.

**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?

Yes, use of LEI would be appropriate for a Mint field.
Question 43: What issues would arise from using the suffix UTI component to link the reports of components of a package?

Not every entity has yet the possibility to make the link.

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

The more the UTI structure is complex, the more the systems will have to be adapted, depending on the system of the operator this may be a simple or a more complex change.

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?

We would agree to intelligent UTI as mentioned before.

Complexity, length, manageability, comprehensibility are the main issues of having an “intelligent” UTI.

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

No specific views.

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?

We have no specific comments, except that it shall remain simple to manage. For operational reasons it could be better if the overall length would be fixed.

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)?

No, UTI should not be case sensitive it would be way too difficult to manage.

**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?

No, from an IT perspective that would add unnecessary complexity.

**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?

No, no separators needed, information may be stored at specific place in the UTI.

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

Having a fixed length may be easier to manage, but that may result in adding irrelevant/useless characters in some UTI.

**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?

The algorithm should be responsible of never generating the same UTI for other trades, even if in all likelihood this may never happen.

**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?
The descriptions of lifecycle events are complete and sufficiently defined. The conclusions as to when a new UTI is required are correct except for unwinds. For this type of event it would be better to allow more flexibility for the reporting (see question 8).