LSEG Response to the CPMI-IOSCO consultation on harmonisation of UTIs

Introduction

London Stock Exchange Group plc (‘LSEG’) welcomes the opportunity to provide comments on the CPMI-IOSCO consultation on the ‘Harmonisation of the Unique Transaction Identifier’. LSEG is a diverse financial market infrastructure group which operates, among others entities, an EMIR-authorised Trade Repository, Unavista Limited, and EMIR-authorised Central Clearing Counterparties (CCPs), LCH.Clearnet Limited, LCH.Clearnet SA and Cassa di Compensazione e Garanzia (CC&G). This response reflects the input of the aforementioned entities.

Overarching comments

While LSEG supports the aim of the CPMI-IOSCO Harmonisation Group to enable the consistent global aggregation of OTC derivatives transaction data, we think it is important to note that, since the G20 commitment in 2009, various jurisdictions have implemented reporting requirements for derivatives in different ways over the last few years. It will therefore be challenging to re-establish new OTC derivatives data elements, such as UTIs. For example, in Europe the implementation of the reporting requirement under EMIR has led to differences among each Member State, which is indicative of the challenges to achieve harmonisation at a global level.

Furthermore, we encourage CPMI-IOSCO to take into account changes which may already be underway in various jurisdictions, in parallel to the development of international standards. For example, ESMA is revising areas of the reporting requirements under EMIR in order to address some of the issues encountered with implementation. Some of the ESMA proposed changes will require significant development and testing efforts by Trade Repositories and reporting counterparties, which will require time ahead of implementation. In light of this, coordination between the development of further new reporting standards at jurisdictional level and international level is necessary to ensure efficiency in terms of cost and time required by Trade Repositories and reporting counterparties in the implementation phase.

To conclude, in order to ensure that the Harmonisation Group achieves its objective to produce clear guidance on UTI, as well as other data elements, that are indeed global in scale and jurisdiction-agnostic, each regulator and policy maker in the IOSCO jurisdictions needs to embrace the guidance and commit to implement it consistently. We believe it is necessary to establish a process that ensures this outcome at an early stage. Failure to translate any international standards in requirements which are applicable consistently across jurisdictions will add further complexity to the status quo for market participants, CCPs and Trade Repositories jurisdictions.

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.

We believe that there may be limited value in defining standards for a harmonised UTI until certain fundamental issues we are dealing with today are solved. These include a common understanding of the purpose, trading capacity, differences between financial instruments and reporting model. More details are provided in our answer to question 2.

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).

We believe that there has to be a common understanding of specific aspects, before harmonisation of UTIs can be achieved. In particular we suggest that international standards address the following issues:

**Purpose:** the main theme of the consultation paper appears to be aggregation of reports without duplication to provide meaningful statistics. This ignores one of the main considerations in the EU which is to be able to match transactions submitted by the two counterparties to the trade.

**Trading capacity:** this is absolutely fundamental in determining who needs to report. We believe that there would be limited value in defining global standards on UTI definition, format and usage ahead of solving the fundamental issue of determining which counterparty has the obligation to report the trade. In the EU, only the principals to the trade need to report; however within the EU there is a lack of a harmonised definition of trading capacity, as the same trade can be treated as two riskless principal trades in one country and as a single agency trade in others. International standards should provide a definition of ‘principal’ and ‘agent’.

**Differences between classes of financial instruments:** the definition of a reportable transaction needs to be clarified at a global level.

We believe that the consultation should address the reporting of all classes of OTC derivatives (e.g. options, forwards, CFDs). Further, in Europe, EMIR requires the reporting of exchange traded derivatives (ETDs), which are derivatives traded on Regulated Markets. Whilst this fundamental difference is acknowledged, it is not addressed. The development of international guidance on derivatives data elements will also need to take ETDs into account.

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?

Yes, we believe that the proposed approach in this area is sensible and sets out the basis for a guiding principle but it will need to be further refined in packaged transactions. Inevitably, such definition will be linked to product identification and we believe that there will be more value in
discussing the proposed approach also in the context of the harmonisation of the Unique Product Identifier (UPI)

As mentioned in our previous answers, we would like to stress the need to determine what constitute a reportable instrument before harmonising the definition of packaged transactions. Credit linked notes (CLNs) are an example of where clarity is needed as to whether they constitute packaged transactions that should be reported. CLNs could be defined as part of the credit derivatives asset class and it could be argued that they were one of the instruments opaquely traded which led to the latest financial crisis. Should they be deemed as reportable, as they would have their own UTI and instrument identifier, or should only their derivative constituents be reported? We think that, in this case, it should be the former, so that the integrity of the link between the instrument identifier and the transaction is not compromised. More generally, without this clarification around the definition of reportable trades, as well as the other aspects mentioned in this response, we do not believe that there can be a thorough analysis and harmonisation of UTIs, or any other data elements.

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

In principle we agree with the analysis, as it will lead to valuable information for regulatory authorities. However, the experience of Unavista suggests that linking related transactions through lifecycle events may be an ambitious objective. This is due to the fact that, at present, it is often the case that firms cannot correctly match their UTI with that submitted by its counterparty to a particular trade. These issues will have to be resolved ahead of requiring linking related transactions through lifecycle events.

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

We agree that determination of who is responsible for generating the UTI is absolutely fundamental to achieving the CPMI-IOSCO’s objectives. However, we would again stress the need to harmonised the definition of what constitutes a trade, taking into consideration the issues presented by the trading capacity

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.

We would note that the concept that the UTI should be generated “as quickly as possible after execution” is dependent upon the definition of execution. For ETD transactions where the trade is given up by the execution broker to the clearing member, it may be that the UTI can be generated as quickly as possible after the trade is accepted for clearing.

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?
As noted in our introduction, since the G20 commitment in 2009, various jurisdictions have implemented reporting requirements for derivatives in different ways over the last few years. It will therefore be challenging to re-establish new OTC derivatives data elements, such as UTIs. While we believe that it should be possible to develop unique UTIs for new trades, we strongly believe that it would be clearly disruptive to apply the new algorithms retrospectively to historical live trades. We would therefore believe that if CPMI-IOSCO decides to develop new standards, these should only apply to new trades that will be reported from when such standards become effective and not to trades reported before such time.

We hope that the above response will assist the ongoing work by CPMI-IOSCO on harmonisation of data elements reported to Trade Repositories. If you have any questions on the above response please contact Valentina Cirigliano at Valentina.Cirigliano@lchclearenet.com or David Nowell at DNowell@lseg.com.

Yours faithfully,

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