October 9, 2015

Dear Sirs/Mesdames:

Re: Consultative Report – Harmonization of Key OTC derivatives data elements (other than UTI and UPI) – first batch (the “Report”)

INTRODUCTION

The Canadian Market Infrastructure Committee (“CMIC”)\(^1\) welcomes the opportunity to comment on the Report.\(^2\)

General Comments

CMIC supports the efforts of domestic and international public authorities in harmonizing all rules relating to OTC derivatives unless there is a specific local reason where such harmonization is not appropriate. It is CMIC’s view that trade reporting data fields is one area where there should be global harmonization in both substance and timing of implementation of any changes to trade reporting rules. It would be unmanageable from a systems perspective if new data elements were to be introduced at different times in different jurisdictions. As the OTC derivatives market is a global market, and trade reporting rules are effective in most major jurisdictions, it would be more efficient and less disruptive if changes to trade reporting rules relating to specific data fields were implemented at the same time globally. In CMIC’s view, this can be accomplished if an implementation date far enough in the future is selected in all jurisdictions.

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\(^1\) CMIC was established in 2010, in response to a request from public authorities, to represent the consolidated views of certain Canadian market participants on proposed regulatory changes. The members of CMIC who are responsible for this letter are: AIMCO, Bank of Montreal, Bank of Tokyo-Mitsubishi UFJ (Canada), Canada Pension Plan Investment Board, Canadian Imperial Bank of Commerce, Citigroup Global Markets Inc., Deutsche Bank A.G., Canada Branch, Fédération des Caisses Desjardins du Québec, Healthcare of Ontario Pension Plan, HSBC Bank Canada, JPMorgan Chase Bank, N.A., Toronto Branch, Manulife Financial Corporation, National Bank of Canada, OMERS Administration Corporation, Ontario Teachers’ Pension Plan Board, Royal Bank of Canada, Sun Life Financial, The Bank of Nova Scotia, and The Toronto-Dominion Bank.

CMIC brings a unique voice to the dialogue regarding the appropriate framework for regulating the Canadian over-the-counter (“OTC”) derivatives market. The membership of CMIC has been intentionally designed to present the views of both the ‘buy’ side and the ‘sell’ side of the Canadian OTC derivatives market, including both domestic and foreign owned banks operating in Canada. As it has in all of its submissions, this letter reflects the consensus of views within CMIC’s membership about the proper Canadian regulatory regime for the OTC derivatives market.

\(^2\) Available at: http://www.bis.org/cpmi/publ/d132.pdf.
In addition, it is CMIC’s view that any proposed changes should proceed only after a thoughtful cost/benefit analysis has been undertaken. Those proposals that are, in our view, overly complicated and of little incremental value should not be adopted.

Finally, as many of the data elements discussed in the Report affect central clearing counterparties (CCPs), as the reporting party, it is our view that the harmonization proposals should not be finalized without input from all significant CCPs.

**Comments on Harmonization Proposals for Specific Data Elements**

1. **Effective Date (Data Element New No. 1.01), End Date (Data Element New No. 2.01), Valuation Timestamp (Data Element New No. 8.03) and Early Termination Timestamp (Data Element New No. 2.02)**

In each of these harmonization proposals, an alternative is suggested to include the time at which obligations commence, end, are valued or are terminated early, as applicable. Most, if not all, of the systems of CMIC’s members (who are reporting counterparties) are not currently capable of tracking this information. In addition, in CMIC’s view, this information is not critical and is often not something parties turn their minds to in negotiating a transaction. Accordingly, for each of the proposals under each of the above data elements, CMIC recommends that Alternative 1 be adopted, that is, only the date should be reported without a timestamp.

2. **Cleared (Data Element New No. 3.01)**

Currently, our members’ systems only allow for the reporting of whether a transaction is cleared under Alternative 2, which is current market standard. However, we understand that the International Swaps and Derivatives Association, Inc. has proposed a third alternative, that is, to report only the following values: Not cleared, Intent to clear, Cleared (Principal), and Cleared (Agency). If regulators believe that this additional granularity is needed, CMIC members are prepared to report using the ISDA recommended alternative categories, provided that sufficient time is given for members to implement changes required to their systems.

3. **ID of primary obligor 1 (Data Element New No. 5.01) and ID of primary obligor 2 (Data Element New No. 5.02)**

It is not clear to us whether these two data elements would report a different LEI than the LEI of Counterparty 1 and Counterparty 2. The narrative under the “Definition” of each suggests that it is different. In CMIC’s view, reporting counterparty would not report the LEI of an agent or entities holding an ownership interest in a structure, as is suggested by that narrative. Accordingly, adding this new requirement (if this is different from the identification of the counterparty) would, in our view, add complexity that may outweigh the initial expected benefits of harmonization.

In addition, the term “obligor” is commonly used to refer to the obligor of a reference entity (in the context of equity derivatives) and is therefore confusing to refer to the counterparty to the trade. CMIC suggests that, if these data elements are necessary, using the term “principal” would be a more accurate description of the information to be reported.

4. **Valuation Method (Data Element New No. 8.04) and Valuation Source (Data Element New No. 8.05)**

CMIC supports only using the mark-to-market and the mark-to-model valuation methods under Alternative 1 as this simplifies trade reporting. CCP valuation will only be used on a cleared trade by a CCP and therefore it is unnecessary to identify “CCP valuation” as the valuation method. In
addition, CMIC supports only using a single field (Valuation Method) to support both the source and method of valuation. In our view, there is no need to identify the valuation source as CCP's are obligated to report that information.

5. Direction (Data Element New No. 12.01)

One of the harmonization proposals is to add a "Direction" data element, identifying whether a party is a “buyer” or “seller” of an OTC derivative transaction. CMIC questions whether it is necessary to report this information as a separate data element. In order to report this information, CMIC members’ systems will need to be updated, taking valuable resources away from other compliance measures. In addition, CMIC is of the view that this information may not be useful to regulators, in particular with regard to FX swaps and forwards and cross currency swaps since the buyer designation depends on the alphabetical order of the currency. Given the fact that information to make this determination is already reported to trade repositories, CMIC is of the view that the complexity of implementing this new requirement outweighs its incremental value.

6. Notional Currency 1 (Data Element New No. 7.01), Notional Currency 2 (Data Element New No. 7.02) and Valuation Currency (Data Element New No. 8.02)

Alternative 1 of including the currency code of the notional amount of a leg by using those included in ISO 4217 is supported by CMIC. In our view, this is current market practice.

7. Valuation Amount (Data Element New No. 8.01)

In our view, Alternative 1 is preferred because it expresses valuation as the current mark-to-market value (exit cost), which is the current market practice. This proposal is simpler to implement while providing regulators with useful information.

CMIC welcomes the opportunity to discuss this response with you. The views expressed in this letter are the views of the following members of CMIC:

AIMCO
Bank of Montreal
Bank of Tokyo-Mitsubishi UFJ (Canada)
Canada Pension Plan Investment Board
Canadian Imperial Bank of Commerce
Citigroup Global Markets Inc.
Deutsche Bank A.G., Canada Branch
Fédération des Caisses Desjardins du Québec
Healthcare of Ontario Pension Plan
HSBC Bank Canada
JPMorgan Chase Bank, N.A., Toronto Branch
Manulife Financial Corporation
National Bank of Canada
OMERS Administration Corporation
Ontario Teachers’ Pension Plan Board
Royal Bank of Canada
Sun Life Financial
The Bank of Nova Scotia
The Toronto-Dominion Bank