BVI’s position on a Consultative report on Harmonisation of the Unique Product Identifier (UPI)

BVI\(^1\) gladly takes the opportunity to present our views related to the consultative report on the harmonisation of the UPI.

- **General Comments**

We strongly agree with the work initiated by CPMI/IOSCO to develop a clear framework for the definition, format and usage of a UPI that meets the requirements of all market participants and global authorities to perform (global) data aggregation and to monitor exposure to, or positions in various groupings of (OTC) derivative products. We strongly support the idea that the UPI should be developed on the basis of open and globally regulated and accepted technical standards which are jurisdiction agnostic. The UPI concept should enhance the aggregation of data reported across a wide range of jurisdiction to multiple trade repositories. The concept of a global UPI could also be used in other areas of the financial industry.

We are a strong proponent of use of ISO standards (e.g. ISIN, CFI, LEI) along the whole value chain of the financial industry. We strongly believe that the ISO structure/organization at least with some nudging by the regulators across the globe is able to create a success story for financial instrument classification (CFI) and identification (ISIN) in the same way as ISO was able to create a global solution for entity identification with the LEI. Against the background of the likely requirement of use of ISIN for MIFID II/MIFIR reporting requirements, we also would welcome a further development of the ISIN allocation process from the current Association of National Numbering Agencies (ANNA) model to a more LEI ROC like model, including introducing more competition into the system by evaluating new numbering bodies both on the national (“NNA”) and the global level (“GNA”).

Furthermore, it is of utmost importance that a global UPI is developed as a public good with no intellectual property rights attaching to it. The reporting financial counterparties should be able to obtain the UPI license free and free of charge. In that respect, we strongly encourage CPMI/IOSCO and all regulators worldwide to ensure that all identifier used in regulatory reporting should be available on a license and fee free basis. In this context, the development of the global UPI concept – which conceptually is sitting on the borderline of both classification of a group of similar but not identical instruments and the unique identification of a single instrument - should also be based as much as possible on the use of global ISO standards.

We believe that the priority must be on pushing the only universally accepted and government supported industry standard setting system, the ISO system. The control over the data and thereby the underlying markets which is maintained currently by the incumbent market participants with the help of proprietary standards is not acceptable going forward if we really want to enable a neutral aggregation of data and thereby support the control of systemic risk. Only the ISO standard governance offers a readi-

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\(^1\) BVI represents the interests of the German investment fund and asset management industry. Its 95 members manage assets of some EUR 2.6 trillion in UCITS, AIFs and assets outside investment funds. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the assets of 50 million private clients over 21 million households. BVI’s ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.
ly available global solution with standards (which may need to be amended) and an infrastructure in place which is acceptable to both the regulators and industry. Both the ISIN and the CFI standards cover today all financial instruments i.e. equities, bonds, exchange traded- and OTC-derivatives. Both could be amended especially on the level of the relevant allocation guidelines to accommodate the specific UPI-requirements, most of which will be specific data fields currently not covered by the standard. ISO has instituted a specific ISIN study group in which we participate to help to provide product descriptor rules to accommodate the UPI.

The implementation of a global UPI concept should be carefully calibrated as the establishment of a complete new product identifier system is very complex and include market infrastructure providers, buy- and sell-side firms and the regulators. Furthermore, the new UPIs needs to be incorporate in the existing market infrastructure life cycle and aligned/mappable with existing (proprietary) identifiers.

- **Specific Comments**

We would like to make the following comments:

<table>
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<th>Question 1: Are the above three OTC derivative instrument types sufficient to describe (in combination) all OTC derivatives? Which OTC derivatives would fall outside this approach?</th>
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<td>Yes, we agree that forward, swap and option are sufficient base types.</td>
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<th>Question 2: Is it valid to assume that a combination of data elements of the instrument with data elements of the underlier is sufficient to define a product? If not, please explain.</th>
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<td>Yes, we agree. An OTC derivative product should be defined as combination of data elements of the instrument with data elements of the underlier. In case of using the ISIN in rare cases the MIC (Market Identifier Code) may be needed as additional info, like in identifying offshore versus onshore issues/deals.</td>
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<th>Question 3: Is it valid to assume that the combination/set of data elements in the UPI classification system may differ across asset classes? If not, please explain and state how a uniform set of data elements could be comprehensively applied across asset classes.</th>
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<td>Yes, we agree. The combination/set of data elements in the UPI classification system could differ across asset classes. However, it is even more advantageous if in Annex 5 all asset classes reuse as far as possible the same data elements for the description of the different OTC derivative classes.</td>
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<th>Question 4: Do you agree with this approach to the UPI’s treatment of package trades? If not, please explain and suggest alternatives.</th>
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<td>Question 5: Are the principles and high-level specifications listed and described above comprehensive in representing the characteristics of a classification system? If not, are there other principles and high-level specifications that should be considered? Please list and explain.</td>
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<td>Yes, we agree. However, the high-level business specification should also include the information that the allocation of the UPI by a (central) utility should be provided at reasonable cost without any intellectual property rights and any licensing requirements. This will ensure that all market participants (e.g.</td>
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fund management companies) are able to use the UPI in their internal IT systems and in their reporting obligation without the need to sign expensive and complex redistribution agreements with data vendors.

**Question 6: Are the principles and high-level specifications listed and described above accurate and precise in their definitions? If not, are there changes you would suggest? Please list and explain.**

We agree. However, the specification could also contain specific information when the category „Other“ should be used.

**Question 7: Could some of these principles and high-level specifications pose implementation challenges? Which ones and why?**

The implementation of a newly created global UPI concept needs to be adapted in the IT systems as the existing granularity of the classification of OTC derivative contracts is not as detailed as by CPSS/IOSCO for the proposed UPI.

**Question 8: Providers of product classification systems are encouraged to provide a detailed response to Section 3 to set out how their prospective UPI solutions meet, or could be revised to meet, each of these principles and high-level business specifications. If the UPI solution does not meet a particular principle or high-level business specification, please describe planned or potential amendments that could satisfy it.**

We have no comments. We prefer that the classification attributes within the UPI product descriptor part are identical with the current or a new CFI-ISO code.

**Question 9: As discussed in Section 3.5, should a classification system allow one or more of its data elements to take the value “Other” in order to incorporate new and/or highly bespoke products that do not yet have a more precise definition within the classification system? Why or why not? If not, how would the bespoke/non-standard products be treated within the classification system? What should be the criteria and processes for moving one or more data elements from “Other” to a more specific bucket? Should the volume of transactions that can be reported using these “Other” values be capped in order to maintain the precision of the classification system? If so, what would an appropriate cap be?**

A UPI classification system should only apply the value “Others” if newly created (OTC) derivative products are introduced and used until the percentage of this traded/reported product exceeds a predefined threshold in comparison to the total amount of the product. As soon as the threshold is exceeded a new OTC product classification bucket should be developed in consultation with the financial community. Most OTC derivative products develop over the time and if traded more frequently, they will show greater level of standardization. A clear and open governance process/structure for the development of the new bucket is required in order to incorporate all relevant stakeholders including the respective working group at ISO for the ISIN/CFI. The regulators have to determine in advance the threshold used by the market participants. The monitoring of the newly created threshold should be made by the trade repositories (TR) as all reporting entities (e.g. German investment fund management companies) are obliged to report (OTC) derivative transactions to a TR.
**Question 10:** The results from the study presented in Annex 4 suggest that data elements that describe the instrument together with data elements that describe and identify the underlier may provide an optimal level of granularity for product classification. For informational purposes, beyond the use of a derivatives product classification system for the global aggregation of data reported to trade repositories, are you aware of product classifications for other purposes where this level of granularity is applicable? For example, what level of granularity is used for aggregating transactions to calculate a position, or to determine various risk exposures to a particular product? What level of granularity is used to aggregate transactions for the purposes of compression or netting operations?

**Question 11:** Do the options presented above appear operationally feasible? If not, please explain why.

**Question 12:** What are the pros and cons that you see in each considered level of granularity (one with an identifier for the underlier, one without an identifier for the underlier)?

To avoid an endless cascade of information there should be a limit how many levels of data on the underlyng have to be reported. There are reports for local supervisions and clients who could make use of this format as well, especially in assessing risk. We would welcome a hierarchical structure of UPI, e.g. a ca. 40 to 60 digit code with ca. 20 digits for LEI (“issuer” related info), ca. 20 digits for a security/underlier info (including ISIN) as well as another ca 20 digits for derivative instrument description (including ISIN, CFI).

**Question 13:** A classification system that includes identifiers for underliers in all asset classes would require identifiers that are open-source and freely available to all users with open redistribution rights. Looking at the example of classification systems provided in this section and in Annex 5, do such identifiers exist for all asset classes? If not, please specify where you foresee implementation challenges in this regard and any suggested solutions.

Currently this does not exist for all asset classes and has limitation in the area of derivatives and money markets. We agree that a classification system should also include identifier for the underliers in all relevant asset classes. The classification of the identifiers for the underliers should be based primarily on ISO standards, and we hope that CPMI/IOSCO would recognize that the ISO organization is to provide additional input on the classification attributes within the UPI product descriptor part as part of the reform of the ISIN allocation guidelines and process for derivative instruments. ISO has instituted a dedicated study group for this effort.

For the description of the classification attributes within the UPI product descriptor part the existing reference data based on the ISO 20022 standard data dictionary and data model should be used. In this context, we would like to take the opportunity to express our view that the ISO 20022 data dictionary and data model would be the most appropriate standard. Overall we believe that ISO 20022 offers the best potential for cost-effective and future-proof implementation. It has a strong methodology and model for defining and structuring financial data, and an open governance process that ensures a level playing field for standardisers and users. It also offers expert international scrutiny of submitted content. ISO 20022 is now being implemented in a growing number of markets, which results in increasing opportunities for automation and interoperability. We believe ISO 20022 brings following benefits:
ISO 20022 is the standard used for messaging by strategic initiatives such as the Single Euro Payments Area (SEPA), in the ECB’s Target 2 Securities initiative, the upcoming migrations of Target 2 and EBA EURO1/STEP1.

ISO 20022 enables higher levels of automation and interoperability across payments and securities, reducing overall industry costs and lowering barriers to entry; basing MiFID II/MiFIR Transaction reporting and Reference data on ISO 20022 will enable us to reuse our investment in supporting the standard.

ISO 20022 can easily cater for future additional/new regulatory reporting functionalities including changes to MiFID II/MiFIR reporting components.

ISO 20022 is an open standard which can be freely implemented, with an open governance process and no single entity that controls it; it has an established process for maintenance and evolution.

ISO 20022 is being adopted globally in the financial industry: Central banks and market infrastructures across the world are increasingly using the standard, with around 70 payments and securities clearing and settlement systems implementing ISO 20022.

ISO 20022 standards have been developed across many financial business processes including retail and wholesale payments, foreign exchange, clearing, collateral management, settlement, asset reconciliation and transaction reporting.

Market participants (e.g. German fund management companies) should not be required to maintain all reference and meta data of the underlying data elements in their own IT systems (e.g. fund accounting system) as this would require for instance the German investment fund management companies to identify and hold all relevant reference data for all OTC asset classes which is currently beyond the scope of the fund and market reference data in the IT system. Therefore, as a starting point for discussion, an identifier of the underlying data elements could be linked/mapped to the core reference and meta data of the underlying data elements, which should be specified in ISO 20022 data model and messages.

**Question 14: For the identifiers in each asset class, are there corresponding reference data that are open-source and freely available to all users with open redistribution rights?**

Please see our answer to question 13. At the moment e.g. classifications of sectors of securities are not available freely available for all asset classes. It is of utmost importance, that all underlying reference and meta data for all asset classes should be available on a license and fee free basis with open redistribution rights. It is not acceptable that some market vendors charge huge amounts license fees to market participants (e.g. German investment fund management companies).

**Question 15: For a classification system that does not include an identifier for underliers in all asset classes, what classification systems are available that are open-source and freely available to all users with open redistribution rights? What are the data elements included in these systems?**

Please see also our answer to question 13 and 14. The ISO standard (ISO 20022) should be used to describe the underlying reference data dictionary and data model.
Question 16: Based on the examples provided in this section and in Annex 5, do you have comments on how the allowable values would be technically managed or/and how they are technically managed in the case of existing classification system solutions?

We have no comments.