London Stock Exchange Group Response to the CPMI – IOSCO Consultative report on Harmonisation of the Unique Product Identifier

Key Points
London Stock Exchange Group (LSEG) supports the aim of the CPMI-IOSCO Harmonisation Group to enable the consistent global aggregation of OTC derivatives transaction data. We also agree that instrument identification and classification are essential components in facilitating this aggregation. However, before responding to specific questions, we would like to highlight the following key points to CPMI-IOSCO, which underpin our responses and are, we believe, crucial to the effective development of an approach in this area:

- **Differentiate between identification and classification**
  
  We strongly disagree with the core concept of the paper that a single data element can both **identify** and **classify** a derivative. Whilst the roles of identification and classification are linked, they are designed for different purposes.
  
  - 'Identification' uniquely identifies an instrument whilst
  
  - ‘classification’ describes the attributes of that unique instrument.
  
  It is logical to identify an instrument with one code and describe the attributes of that instrument with a separate code. We believe there is no logic or advantage to use one single code to perform these two separate tasks. Therefore, instead of considering the UPI to refer to both the classification system and the code, we would strongly urge CPMI-IOSCO to consider the UPI to be the identifier for an instrument that has an associated classification.

- **Maintain consistency with international standards**
  
  This is the approach adopted by ISO in its ISO-6166 International Securities Identification Number (which is widely used for identifying derivatives as well as cash securities) and its associated ISO-10962 Classification of Financial Instruments (which has been revised to cover OTC derivatives). We note that attempts to try to embed intelligence into an identifier, such as the “Alternative Instrument Identifier” used by certain derivative exchanges for MiFID reporting, have failed, to the disadvantage of regulators, firms and ultimately investors.

- **UPI discussion needs to also consider ETDs rather than being exclusively an OTC swap focussed consultation**
  
  The consultation addresses OTC derivatives. In Europe, EMIR requires the reporting of exchange traded derivatives (ETDs), which are derivatives traded on Regulated Markets. ESMA and the national competent authorities within the EEA are seeking to identify systemic risk across all derivatives. We would suggest that it is incompatible with this goal to aggregate OTC derivatives transaction data separately from ETD transaction data, especially since many OTC derivatives are simply ‘mirror’ or “back to back” contracts of OTC derivatives and there is a significant regulatory emphasis on bringing OTC derivatives on exchange or electronic trading platform.
Detailed Responses
LSEG responds to the following questions posed:

**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?

LSEG: We urge CPMI-IOSCO to consider all derivatives – ETD as well as OTC. This approach was adopted by the working groups on the recent ISO 10962 revision and we would argue that this standard should be adopted internationally.

**Question 2:** Is it valid to assume that a combination of data elements of the instrument and data elements of the underlier is sufficient to define a product? If not, please explain.

LSEG: We believe it is the ISO working groups that should define an instrument requiring a unique identifier. Fungibility is a key criterion in determining what is a unique product and the characteristics of the derivative and the underlying instrument(s) will be key considerations.

**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.

LSEG: The product identifier should contain no embedded intelligence to provide a description of the characteristics of the instrument. Identification through an identifier should be distinct from description. Description should be provided through a classification that can be associated with the identification code.

**Question 4:** Do you agree with this approach to the UPI’s treatment of package trades? If not, please explain and suggest alternatives.

LSEG: We support the approach of using a separate field (‘Complex Trade Component ID’) adopted by ESMA in its draft MiFID II Regulatory Technical Standards (RTS 22) to link the component elements of packaged trades.

**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.

LSEG: It is not clear to us why identification of ‘OTC’ derivatives is the subject of consultation in isolation from ETDs and we suggest that identification of ETD and OTC should be considered as a whole. We believe the principles are all laudable, but they are being used for both ‘identification’ and ‘classification’, which we consider inappropriate, as discussed in the “Key Points” section above. For example, ‘Uniqueness’ applies to identification – a unique product should have a unique identifier, whilst ‘Consistency’ applies to classification. For as long as this apparent confusion between identification and classification exists, we suggest that it is impossible to comment constructively on questions 5, 6 and 7.

**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?
LSEG: We believe that ‘other’ is unavoidable at some level of the classification hierarchy as OTC derivatives are innovative and will evolve faster than the classification schemes.

**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?

LSEG: As we have said, the concepts of identification and classification are being used interchangeably in this question and this makes it difficult to respond. We do, however, note that the use of an ISIN for the underlier of a derivative would make it easier for both informational and aggregational purposes. We also note that many referential instruments already have ISINs assigned and we firmly believe extension of this process would be invaluable for meaningful aggregation of derivative transactions. Additionally, the ISO-10962 CFI uses a six tier hierarchical approach to classifying the derivative type, its characteristics, the underlier and the underlier’s characteristics.

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

LSEG: The CFI is assigned by National Numbering Agencies, the CFI scheme is proven.

**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.

LSEG: Yes, the ISIN. Whilst many referential instruments already have ISINs assigned, we would encourage NNAs to increase the coverage of ISINs for these referential instruments.

**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?

LSEG: The ISIN is freely available to all users with open redistribution rights (cost recovery 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?

LSEG: We recommend that ISIN is used for identification and the accompanying CFI is used for classification. These will be managed by the NNAs for ETD. Technical management may be different for OTC and various working groups are actively engaged in determining how this will be progressed.

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