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For the attention of:

The Committee on Payment and Settlement Systems

and

**The Technical Committee of the International Organisation of Securities
Commissions**

**By email to CPSS secretariat (cpss@bis.org) and to IOSCO secretariat (OTC-
Data-Report@iosco.org)**

**Subject: Response on the CPSS-IOSCO consultative report on “OTC
derivatives data reporting and aggregation requirements”**

SWIFT has reviewed the consultative report on “OTC derivatives data reporting and aggregation requirements” issued by CPSS/IOSCO in August 2011 and welcomes the opportunity to provide feedback.

SWIFT is a member-owned, cooperative society that provides its community of banking, securities, market infrastructures and other regulated organizations, as well as corporations, with a comprehensive suite of messaging products and services. Through these products and services

SWIFT supports every aspect of global financial services, including payments processing and securities post trading. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, through its country National Member Groups, to shape market practice, define formal standards and debate issues of mutual interest.

SWIFT is organized under Belgian law and is owned and controlled by its shareholding Users, comprising over 2,300 financial institutions. The user community exceeds 9,600 connected firms, across 210 countries. A fundamental tenant of SWIFT's governance is to continually reduce the costs and risks borne by the industry.

SWIFT welcomes the publication of the consultation and the focus it brings to this most important area, where we believe international coordination will be crucial to the realisation of greater market transparency, whilst at the same time enabling the financial industry to maximise operational efficiency in compliance with the relevant regulatory mandates.

Please find below our feedback in respect of the specific points upon which we would like to comment, which are mainly focused on the issue of legal entity identification (LEI):

General Comments on Executive Summary

- 1) SWIFT welcomes the recognition in the executive summary of the crucial role that the development of an International LEI will play in enabling the aggregation of OTC derivatives transaction data, which will be required to be reported to trade repositories in satisfaction of the G20 commitments, and in compliance with related legislative initiatives in many markets.
- 2) We agree that an international approach is required for the optimal implementation of the LEI, and welcome the opportunity presented by the forthcoming workshop, organised by the FSB, which will provide a most useful opportunity to examine the issues around the international coordination of LEI implementation.
- 3) We agree with the desirability of the development of product identifiers and hope, as with the LEI, that this can be achieved in collaboration with the industry.

Comments on Section 4 Data Aggregation

Section 4.5.1 Purpose of legal entity identifiers

In order for the OTC Derivatives data which is to be reported in satisfaction of the G20 commitments to be meaningful and to be more easily capable of being aggregated, we would agree that an LEI is required. As the report correctly states, there are currently many ways of identifying entities in financial transactions. Such a reality is actually somewhat sub-optimal today from an industry automation standpoint, and becomes untenable under the upcoming regulatory changes. The need

for the LEI is therefore, we believe, without doubt and the focus needs to be on the principals which such an identifier (and its associated reference data) should satisfy. A group of trade associations, led by the Global Financial Markets Association (“GFMA”),¹ recently issued detailed requirements and a Solicitation of Interest for service providers to propose an LEI solution and implementation plan. SWIFT, together with the Depository Trust & Clearing Corporation (DTCC) and International Organization for Standardization (“ISO”) made a detailed proposal to those associations and they recommended its adoption to various regulators around the world. The trade associations also recommended that SWIFT, DTCC and ISO work with ANNA in an effort to federate the contribution of data on legal entities who are issuers or obligors of instruments issued in the jurisdictions covered by NNAs. SWIFT, DTCC, ISO and ANNA have reached agreement on how the NNAs can interface with the LEI Utility to federate the input of legal entity data into the LEI database. The NNAs can interface with the LEI database to federate the input of legal entity data into the database for issuers and obligors. The agreed framework for roles and responsibilities have been reviewed and endorsed by the trade associations.

In our joint response to the industry process, SWIFT, DTCC and ISO identified the following core principles which we believe should underpin the development of the LEI:

These principles are:

- 1. Make the data freely available.** By making the content and the standards that guide it freely available, the chances of broad adoption increase dramatically. The LEI can only become a global standard if it is free for everyone to access, use and distribute. The LEI data attributes have the potential to be used in almost every system in the financial industry and form the foundation for delivering transparency in the global financial system.
- 2. Encourage participation.** The key benefit of a standard that has no usage fees or restrictions is that there is no material barrier to its usage and wide adoption.
- 3. Provide a pragmatic, iterative solution.** Making the content free and encouraging participation in its use inevitably will draw feedback from users on the standards and processes used to generate that content. The full advantage of this feedback can be captured by making the data standards and processes themselves publicly available for review, comment and ultimately for considered revision
- 4. Promote regulatory coordination.** Regulators and trade associations around the world have been discussing the reference data problem for several years and are arriving at similar conclusions. Combining these dynamics with making the LEI database free for everyone to use, including global regulators and commercial service providers, will produce an environment which makes global adoption easier.
- 5. Ensure global coordination.** Every regulated market participant benefits if they can reduce their costs associated with cross referencing to multiple entity identification schemes.

¹ GFMA joins together some of the world’s largest financial trade associations to develop strategies for global policy issues in the financial markets, and promote coordinated advocacy efforts. The member trade associations count the world’s largest financial markets participants as their members. GFMA currently has three members: the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA), and, in North America, the Securities Industry and Financial Markets Association (SIFMA).

- 6. Enable a common language to measure and monitor systemic risk.** The execution of the previous five principles is required for effective analysis of systemic risk. A common language shared and used by all financial market participants around the world to identify entities that generate both risk and return is the foundation for all forms of risk management.

Applying the above principles represents an approach that we believe is best suited to delivering a workable international LEI solution. In terms of the attributes of the standard LEI data field itself we would agree with the statements in the report and would augment them with the following list of key attributes which the chosen standard should satisfy:

- Enables unique identification of global entities requiring a legal entity identifier;
- Defines a robust open governance of the issuance and maintenance of the Legal Entity Identifier scheme;
- Contains no embedded intelligence;
- Can be applied globally to support the financial services industry;
- Leverages industry expertise through the ISO process in defining and maintaining identifier standards;
- Will be persistent;
- Will define a scheme that is scalable and free from assignment limitations.
- Defines the basic data elements perfectly in line with the requirements for a global LEI solution.

We would agree that the reference data associated with the LEI would need to include as a minimum: official legal name, address, country of incorporation and ultimate parent ID. Other attributes such as immediate parent ID could also be added.

SWIFT understands that the immediate priority for the LEI is to provide a key tool for the management of data underpinning greater transparency for the OTC derivatives markets. We see, however, a potential through a phased approach, for extending the scheme so as to be useful in the wider context of financial transactions, and therefore any scheme adopted for the purpose of OTC derivatives reporting must be capable of extension beyond this immediate need.

Section 4.5.2 Challenges regarding legal entity identifiers

SWIFT accepts that there are challenges to the implementation of a fully functioning LEI solution and that these challenges are well expressed in the report. We do, however, believe that these challenges can be resolved by taking the following approach:

- Phased implementation – with initial focus on the priority areas required for OTC derivatives reporting.
- Flexible approach based on population of LEIs through a combination of self registration and bulk registration.
- Industry utility based LEI solution operating on a cost recovery basis with industry governance.
- Regulatory mandate for the creation and use of LEI in accordance with the phased approach to implementation.

Section 4.5.3 Alternatives to creation of a universal legal entity identifier

In our view the aggregation of OTC derivatives data for regulatory purposes can best be accomplished by the establishment of a universal LEI. This LEI will be best supported by a centralized utility, which will be in a position to provide the necessary coordination to eliminate inconsistencies. At the same time such a utility should be in a position to harness local expertise in individual markets to capture accurate reference data to link with individual LEIs. Such an approach was included in the recent industry recommendation on LEI, where a solution based on an industry utility operated by SWIFT and DTCC, was augmented with LEI data collection in cooperation with individual national numbering agencies.

We would agree that the benefits of a universal LEI would accrue not just to regulatory authorities but would also present an opportunity to the industry in terms of greater operational efficiency and improved risk management.

Without such a centralized approach based upon a universal LEI, it will be more difficult for regulatory authorities to achieve the data aggregation they need and for the industry to make efficiency gains.

Section 4.5.4 Value of an international approach to creation of a legal entity identifier

As already indicated we are clear that international convergence on the characteristics of an LEI and on the use of an LEI, most likely achieved by means of legislation or regulation in national markets and/or across markets, is the best way forward.

Section 4.6.2 Absence of a common system of product classification

SWIFT notes the commentary in the report concerning the lack of a common system for the identification of products in the OTC derivatives space. Whilst, unlike with LEI, SWIFT cannot at this stage put forward a comprehensive solution in this area, we are ready to assist industry led initiatives in this space where we can. Specifically, in terms of unique product identifiers (UPIs) and taxonomies for OTC derivatives, we are in support of the existing ongoing industry process led by the International Swaps and Derivatives Association (ISDA) to provide unique product identifiers on a global basis and to provide a global product classification or taxonomy for OTC derivatives.

Comments on Section 5 Recommendations

Section 5.1 Minimum Data Reporting Requirements

It is important that the business content of the reporting to TRs is agreed by regulatory authorities and that this business content requirement is applied consistently in respect of reporting to all TRs offering services for the same OTC derivative asset class. It would be helpful to define principals around the formats to be used in making reports to TRs. In our view the option to use open industry defined format standards for TR reporting by participants is essential. Such formats should include those which are compliant with the ISO 20022 methodology for financial message creation. Common reporting formats will, we believe, make it easier for financial industry participants to submit data to TRs, and ultimately for data to be extracted by regulatory authorities, where applicable, in the form of templates.

Section 5.2 Methodology and mechanism for aggregation of data

SWIFT endorses the recommendations in this section and agrees that LEIs ‘would constitute a public good’. We note the comment on industry initiatives in this section and reaffirm our commitment jointly with DTCC and ISO to work with the trade associations and regulators to making any and all modifications to the recommendation in order to achieve the required global consensus amongst the industry and regulatory community.

DTCC already provides TR services across various OTC derivatives asset classes and so is very well placed to work with us in the development of an open industry solution which is ready for “production use” at the earliest opportunity.

We agree with the ‘basic principles’ set out in this section of the report for LEI, which equate we believe very well with other comments which we have made earlier in this response and with the recent industry recommendation for an LEI solution. We believe that ISO 17442, the new ISO LEI standard, issued and managed through a utility solution operated by SWIFT and DTCC, provides a solution which is indeed; unique, neutral, reliable, open source and extensible. We recognize that governance is a key concern. On the one hand it does not make sense to have multiple suppliers administering multiple LEI standards (which is largely the situation we have today), but a single standard administered by a single supplier gives rise to monopoly concerns. This is why we favour an industry solution based on an open standard, which includes stakeholders in the governance and which is subject to clear contractual obligations in the way in which services are delivered.

Section 5.2.2 Continued international consultation regarding implementation of legal entity identifiers

SWIFT supports and encourages continued coordination amongst all stakeholders and between financial and data experts on the implementation of an LEI and particularly welcomes the forthcoming FSB workshop on this topic. SWIFT is ready to contribute in any way we can to the LEI development, which we believe is core to improved operational and risk management outcomes for the financial industry, and to the achievement of increased market transparency in line with the emerging regulatory objectives.

Section 5.2.3 Development of a standard international product classification system for OTC derivatives

We support existing industry-led developments in this area (see our answer to 4.6.2 above) and will contribute to this initiative where appropriate.

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