

Via E-Mail (fsb@fsb.org)

17 November 2017

Financial Stability Board
Bank for International Settlements
CH-4002 Basel, Switzerland

RE: FSB Consultation Document on Governance arrangements for the unique product identifier (UPI): key criteria and functions

Dear Board Members:

CCP12 is a global association of 36 major central counterparty (“CCP”) organizations in Europe, the Middle East and Africa (“EMEA”), Asia-Pacific, and the Americas. CCP12 was formed to share information, develop analyses and develop policy standards for common areas of concern. CCP12 members work toward the common purpose of creating conditions in which a global CCP solution can emerge to meet the needs of the marketplace. This letter represents our response to the Financial Stability Board’s (“FSB”) consultation document, Governance arrangements for the unique product identifier (“UPI”): key criteria and functions.

Members of CCP12 offer clearing services for a wide range of products, including over-the-counter (“OTC”) derivatives in a variety of asset classes. Many of our members are therefore subject to OTC trade reporting obligations in their home jurisdiction, and in foreign jurisdictions where they maintain either licenses to provide clearing services or have recognition as a third country CCP. As such, the introduction of a global UPI standard will be a key consideration for our members given that our systems and our market participants will be required to consume and report the applicable UPI codes.

CCP12 is supportive of the proposed governance arrangements and criteria as set out in the consultative document. CCP12 believes that the unrestricted access to UPI codes and data standards will help provide the transparency that regulators, global standard setters and market participants desire. Cost recovery for the operation of the UPI system should be made transparent to the public so that UPI service provider(s) can be held accountable for the costs incurred in their operation. Additionally, it is important to recognize that reporting entities have already invested significant resources in implementing existing reporting rules, and any new rules should not undo this effort, but build on it with the objective of greater data aggregation ability. Finally, and most importantly, CCP12 would like to stress the importance of global adoption of the final UPI standards across jurisdictions, consistent with the Committee on Payments and Market Infrastructures (“CPMI”) and the Board of the International Organization of Securities Commissions (“IOSCO”) UPI Technical Guidance¹, to eliminate any cross-border OTC trade reporting conflicts.

In response to the specific questions in the consultative document, CCP12 has prepared the following remarks:

¹ CPMI-IOSCO, Harmonisation of the Unique Product Identifier - Technical Guidance, September 2017, <https://www.bis.org/cpmi/publ/d169.pdf>

Q3. Should the UPI System operate on a cost recovery model? If not, what is the suggested alternative and how does it fit with other governance criteria?

Unrestricted access to the UPI codes and data standards for all market participants will be pivotal for the global adoption of a single UPI system, and the maintenance of that UPI system will require costs. Total cost to maintain the UPI system will be dynamic because the OTC derivatives marketplace is constantly evolving. Transparency into the costs incurred to maintain the UPI system is the best method to ensure that the UPI system is being adequately financed and properly managed. CCP12 supports governance arrangements which ensure UPI service provider(s) are held accountable to provide transparency of the costs incurred for their operation. An example of a how cost-recovery based model and its governance can function is the Association of National Numbering Agencies (“ANNA”).

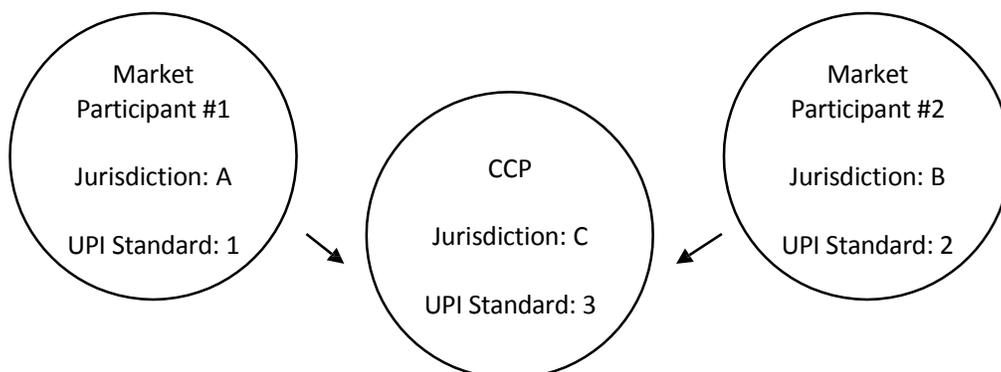
Q20. Do you see a need for the UPI Reference Data Elements to be standardised by an International Standardisation Body and if so why? Are there aspects in which this would be impracticable? If so, please describe those aspects.

CCP12 would like to raise our concerns regarding the potential failure of international harmonization in the UPI standard in response to this question, so that our comments can assist the FSB in determining the applicability of an International Standardization Body.

CCPs serve market participants in both domestic and foreign jurisdictions. International adoption of a single UPI standard is vital to preventing any unintended consequences in OTC derivative trade reporting. Additionally, timing of such adoption should be synchronized as much as possible on an international level to ensure that all market participants have adequate time to adhere to the new reporting requirements.

Example

To highlight the potential unintended consequences, please consider the example of a single OTC trade cleared through a CCP. In any single cleared OTC trade, there is the potential for at least three eligible OTC trade reporters. Both market participants to the OTC trade could be required to report to a trade repository, while the CCP could also be required to report. In many cases, one market participant can be based in one jurisdiction, the other market participant in another jurisdiction, and the CCP in a third jurisdiction. Should differences in approved UPI codes and standards emerge across jurisdictions, it would negatively impact the operational efficiency of the OTC derivatives markets. In this simple example, imagine if the three market participants were based in different jurisdictions, where each jurisdiction had adopted different UPI codes:



In this situation, a CCP would be required to maintain systems to support the UPI Standard of each jurisdiction. The CCP would need to consume the UPI Standard's (1) and (2) to report those cleared trades in the market participant's home jurisdictions, while also maintaining UPI Standard (3) to report the cleared trade to the relevant authority in their own jurisdiction. Fragmented adoption of the UPI codes and data standards would lead the OTC derivatives market down a path where eventually every OTC market participant would be required to maintain systems and libraries to support the UPI standard of every jurisdiction to ensure they can trade with the maximum number of counterparties.

To ensure the transparency and efficiency objectives of the UPI standards are achieved, it is vital that participants globally operate under OTC trade reporting frameworks which recognize a single globally adopted UPI code and data standard.

Conclusion

CCP12 supports the efforts to establish governance arrangements for the UPI and the ultimate goal of enhancing the ability of regulators and market participants to aggregate OTC derivatives transactions by product. We appreciate the opportunity to provide comment from the CCP perspective on this consultation and we hope our comments assist the FSB in their work to establish a global UPI System. If there are any questions or areas in which we can further elaborate, please contact the undersigned.

Sincerely,



Lee Betsill
Chairman, CCP12



Marcus Zickwolff
Chief Executive Officer, CCP12