sifma
asset management group

September 30, 2016

Committee on Payments and Market Infrastructures
cpmi@bis.org

Board of the International Organization of Securities Commissions
upi@iosco.org

Re: Second Consultative Report: Harmonisation of the Unique Product Identifier

        The Asset Management Group of the Securities Industry and Financial Markets Association ("SIFMA AMG" or "AMG")[1] appreciates the opportunity to provide the Committee on Payments and Market Infrastructure ("CPMI") and Board of the International Organization of Securities Commissions ("IOSCO") to comment on the second consultative report regarding Harmonisation of the Unique Product Identifier (UPI Consultative Report").

        SIFMA AMG strongly agrees with the regulatory goal of utilizing a globally-harmonised product identifier for derivatives and appreciates CPMI-IOSCO's efforts to work across jurisdictions to ensure a consistent approach resulting in one solution to address regulators' need to have certain data aggregated into a single field. In the response to the first UPI consultation in March 2016, AMG urged CPMI-IOSCO to work with market participants to fully develop the UPI code in advance of implementation to avoid costs associated with serial implementation.[2] As such, we agree with CPMI-IOSCO's "aim to produce clear guidance about the definition, format and usage of a unique product identifier that meets the needs of its users, is global in scale, is based on relevant international technical standards where available and is jurisdiction agnostic."

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[1] SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed $34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

[2] *Available at:* http://www.sifma.org/issues/item.aspx?id=8589959178.

As CPMI-IOSCO moves forward, we ask that CPMI-IOSCO take into consideration the product identification work that has been undertaken by other industry parties, and to consider a single framework to cover multiple product identifiers and usages in all jurisdictions. The International Organization for Standards (ISO) is currently developing an ISIN identifier for OTC derivatives, as required by MiFID II and MiFIR. The concurrent development of global UPI code and the European standard may result in redundant identification systems or investment in a European system that is not viable for all jurisdictions. We urge regulators to avoid such an outcome.

We further believe that governance considerations should be considered at the same time that CPMI-IOSCO assesses technical issues relating to the UPI code. Granularity, adaptability and viability of a UPI code for the ever-evolving OTC derivatives markets are necessarily intertwined with who will control and maintain the UPI framework and who will hold intellectual property rights. The UPI code should utilize an open standard with intellectual property held in a manner similar to the Legal Entity Identifier system and should comply with governance-related requirements that apply to regulators in each jurisdiction. Ideally, there would be one global utility managing derivatives product identifiers with a framework for hierarchical structure as determined appropriate by regulators. We urge regulators address governance in parallel so that the technical considerations will be shaped by governance.

We have provided below our specific responses to the questions asked in the Second UPI Consultation.

Question 1: Do you believe that the data elements within each asset class described above are appropriate? Why or why not? If there are additional subcategories that you believe should be included for one or more asset classes, please describe them and discuss why you believe they should be included.

SIFMA AMG believes that the UPI should be as granular as needed to satisfy regulatory purposes of reporting and aggregation but that granularity beyond these proposes should not be mandated and should be balanced by counterparty confidentiality considerations.

We believe that CPMI-IOSCO should consider whether certain architecture would enable the leveraging of the UPI; however, adaptability and viability of the UPI code as markets evolve should be the priority. While CPMI-IOSCO notes that the UPI could be leveraged for other trade processing purposes, SIFMA AMG does not believe that these other purposes should burden the standard that regulators will mandate. To the extent greater granularity or more complex architecture would undermine or burden the adaptability of the UPI code, we believe it should not be included.

We believe that confidentiality should be considered in balancing regulatory needs for aggregation of data. AMG continues to be concerned about market participant confidentiality. The UPI code should not be designed in a way that would compromise counterparty information or publicly disclose information that could be used to reverse-engineer trading strategies.

Due to viability and confidentiality concerns, we believe that the inclusion of underlying asset/contract subtype is too specific. Taking for example the application of this field to

commodities, we believe that the list is necessarily incomplete as the task of identifying every contract subtype would be challenging. The list does not take into account a transaction with more than one subtype (*e.g.*, a Gas Oil/Oil transaction) notwithstanding that both subtypes may fit within one contract type (*e.g.*, Energy). We believe that underlying asset information that is this granular will impose unnecessary burdens on the adaptability and viability of the UPI code. Further, this level of specificity threatens confidentiality of market participants trading in less liquid contract subtypes.

For these same reasons, as discussed below, we believe that specific disclosure of custom basket information should not be included.

Question 2: Do you believe generally that the value "Other" is required in certain data elements? If so, which ones and why?

We believe that the inclusion of the value "other" is useful; however, if CPMI-IOSCO believe that "other" will be used extensively to complete the field, CPMI-IOSCO should consider whether the field is too granular. Taking for example the underlying asset contract type and subcontract type discussed above, we believe that the value of "other" would be helpful for contract type but likely would need to be relied upon heavily for subcontract type because the field is too specific.

Question 3: For an OTC derivative product based on a custom basket of securities or assets, please provide your view of the optimal means of representing that OTC derivative product. Do you believe that it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference data? If not, how do you believe that the elements of the custom basket and their risk weights should be reported to a TR?

Per SIFMA AMG's response to Question 1 above, we believe that providing this information threatens confidentiality, including trading strategies and identities of market participants. Custom baskets are bespoke products designed to achieve specific purposes. As such, we do not believe that this information should be widely disclosed. Further, due to the bespoke nature of these transactions, this information would not likely aggregate trades and could result in a UPI "category" being assigned at a transactional level.

Question 4: How should underlying assets and reference entities be represented in the UPI data library? Would LEIs be suitable, at least for corporate reference entities? Why or why not? Are there suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?

We urge the regulators to work with industry participants and service providers to determine solutions for representing underlying assets in the most appropriate way. There are some established industry codes that would be useful for identifying underliers, but their usage may result in intellectual property issues. It is essential for regulators and all industry constituents to work together to establish an overarching product identifier framework that solves the IP issue.

Question 5: Do you envisage any obstacles to including the source of the identifier for the underlier as part of the reference data element for the underlier? Please explain and justify.

Question 6: Could there be issues related to including proprietary benchmarks and indices

in publicly available reference data or publicly disseminated UPIs? Please elaborate on any issues, such as licensing, that may exist.

Question 7: What are the arguments for and against the use of a dummy UPI code or an intelligent UPI code, or having both types of code coexisting?

AMG recommends a "dummy" fixed length code. We believe that such a code will achieve the regulatory objective without overtaxing system resources.

Question 8: Do you agree that a well-articulated UPI reference data library could support interoperability between dummy UPI codes and intelligent UPI codes? Why or why not? What steps could be taken with the UPI reference data to facilitate supporting both types of UPI code?

Question 9: What are the minimum and maximum lengths (in terms of number of characters) that you believe the industry could accommodate for a UPI code system? How does this vary between dummy and intelligent codes? What do you believe is the optimal number of characters, and why?

While SIFMA AMG members are open to any code length that can be accommodated easily by any system, we recommend setting the standard of a 12-character, fixed length as asset managers' systems currently handle that length for ISINs and this standard is currently required in Europe for UPIs. While additional length could add value for leveraging the UPI code for other purposes, we would caution the use of a standard that would require an expensive rebuild of systems, particularly given the numerous regulatory initiatives that presently require resources.

Question 10: For intelligent codes, how should the information be encoded? Are there existing models for this? How much adaptation would existing models require in order to meet the needs described in this consultation?

Question 11: Do you believe that UPI codes should have an inherent means of validation? For example, should UPI codes include a check digit? Why or why not? Does this vary between dummy and intelligent codes and/or depend on the encoding method used in an intelligent code?

Question 12: Another means of having a simple, partial validation for a UPI code would be for all UPI codes to be of uniform length: thus, any code that was not of the required length could be recognised as prima facie invalid. Do you believe that all UPI codes should be of uniform length? Why or why not? Or are optimal UPI codes of one asset class likely to be longer or shorter than optimal UPI codes for other asset classes? If so, do you believe that extra dummy characters should be inserted into the shorter codes to make them of the uniform length? Why or why not?

Question 13: For an intelligent UPI code, how should underlying the asset(s) or reference entity (entities) be represented within the UPI code? Would it be preferable for the part of the UPI code that represents the underlying asset(s) or reference entity (entities) to be

dummy while the rest of the code is intelligent? Why or why not?

Question 14: Should the UPI code system avoid using Roman letters? Why or why not? Are there particular jurisdictions whose computer systems cannot accommodate Roman letters?

Question 15: Would it be preferable for the UPI code system to use only Roman letters, only Indo-Arabic numerals, or a combination of the two? Why? If Roman letters are included in the UPI code system, should they avoid being case-sensitive? If the UPI code system uses both Roman letters and Indo-Arabic numerals, should the system not disallow particular characters that could be mistaken for each other (the lower-case letter "l" and the number "1", the digit "0" and the upper-case letter "O" etc).

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If you would like to discuss this request or have any questions, please do not hesitate to contact Laura Martin at 212-313-1176 or lmartin@sifma.org or Elisa Nuottajarvi at 212-313-1166 or enuottajarvi@sifma.org.

Respectfully submitted,

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