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Via Email (cpmi@bis.org and UPI@iosco.org)
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Bank for International Settlements
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Madrid Spain

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

The Asset Management Group[1] of the Securities Industry and Financial Markets Association ("SIFMA AMG" or "AMG") appreciates the opportunity to provide the Committee on Payments and Market Infrastructures ("CPMI") and the International Organization of Securities Commissions ("IOSCO") with comments on the Consultative Report regarding the harmonisation of the Unique Product Identifier (the "Consultative Report") issued by the CPMI-IOSCO working group for the harmonisation of key OTC derivatives data elements ("Harmonisation Group").[2]

SIFMA AMG supports the initiatives undertaken by the Harmonisation Group to develop guidance for a uniform OTC derivatives products classification and associated code, together referred to as the Unique Product Identifier ("UPI"). AMG recommends proceeding in a manner that maximizes data quality, economizes the resources of market participants and protects confidentiality of counterparties. Specifically, AMG has the following comments regarding the Consultative Report:

AMG agrees with the Consultative Report's recommendation that the UPI should be consistent, persistent, adaptable, clear and have long-term viability; however, AMG urges CPMI and IOSCO to work with regulators and market participants to fully develop the UPI in advance of implementation to avoid the costs associated with serial implementation. Asset managers will need to build systems to utilize the UPI, among other new fields, for trades executed on behalf of clients. In order to do so, systems will need to be adapted or built, requiring

[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] The Consultative Report is available at: http://www.bis.org/cpmi/publ/d141.pdf.

expenditure of technology budgets. Asset managers have already expended considerable resources for existing reporting requirements and would like to leverage their current and future reporting infrastructure investments as reporting requirements evolve. Therefore, asset managers put a premium on investing the necessary time and resources before implementation to properly formulate the UPI to achieve regulatory goals. Asset managers would like to avoid an iterative approach that would be costly for market participants. In order to achieve global harmonization while avoiding interim solutions at jurisdiction-specific levels, we urge CPMI and IOSCO to work closely with regulators, standards organizations, market makers and end users so that the recommendation made by the Harmonisation Group accomplishes regulators' goals and is widely adopted.

AMG agrees with the jurisdiction-neutral approach taken for the UPI in the Consultative Report; however, AMG believes that <u>all</u> fields should be harmonized across jurisdictions to make neutrality workable. Harmonization of the UPI and other data elements among global regulators is essential to satisfying regulatory uses and achieving market transparency. Absent global standardization of the UPI, AMG is concerned that similar products may be defined differently from jurisdiction to jurisdiction. Such a result will increase the likelihood of misinterpretation and reporting errors. Jurisdictional differences also create data integrity issues in global asset management firms with accounts and reporting requirements in many jurisdictions.

Currently, numerous reporting requirements have emerged without coordination on a jurisdiction-by-jurisdiction basis. Some of these same jurisdictions contemplate the use of a product identifier, but separately require other fields that may duplicate some of the information considered in-scope for the UPI. As such, AMG strongly urges coordination across fields to avoid data quality problems.

AMG recommends streamlining data requirements upon the determination that a UPI would provide a useful aggregation of data fields. The Harmonisation Group has focused on facilitating global aggregation of data to both help identify large directional positions in various asset classes and sub-classes across different jurisdictions, and to help identify changes in the behavior of market participants that might have financial stability implications.

Given the very significant effect on the existing infrastructure that the introduction of a UPI would have, AMG cautions against adding yet another identifier without careful analysis of the UPI's scope to assess the extent to which aggregation of the data elements will be necessary. The Harmonisation Group has already expressed a preference for excluding data elements from the UPI in some areas where the information should be covered by other fields. For example, the Consultative Report recommends not including an attribute to identify package transactions because that result can be achieved via the Unique Trade Identifier ("UTI").[3] The same type of redundancy analysis should be done for other fields to carefully assess the data elements included. While jurisdictional neutrality is an important goal that AMG supports, the Harmonisation Group should look at the fields commonly used across jurisdictions to determine more comprehensively which data elements are already being provided to regulators and which should remain separate fields.

[3] Consultative Report at 7.

Upon determining that the aggregation of data elements through the UPI would serve regulatory needs, AMG recommends that duplicative data elements are removed. Duplication is more than just an issue of wasted resources. Duplication also results in a reduction of data integrity that will undermine regulatory goals. If, for example, a field that duplicates an element of the UPI is completed with a different value from the value embedded in the UPI (perhaps because the field's requirements are unclear or not uniformly interpreted) the disparity calls into question the validity of the data provided through the UPI. Investing in non-overlapping fields that are clearly defined will better achieve reporting goals.

The UPI should include sufficient data elements to understand exposure to the underlier but granularity should be balanced with the necessity of the information to achieve that purpose and the countervailing need to preserve counterparty confidentiality. We understand that "the UPI would contain information about the instrument type and product but not about the contract or transaction."[4] We further understand that CPMI-IOSCO is considering including a combination of data elements to define a product, and that the combination may differ across asset classes.[5]

While data elements should be included to achieve market transparency, and to assist regulators in understanding systemic risk, any additional information beyond current fields should not be more granular than necessary to achieve these goals. For many swaps and options, the underlier will not be easy to identify with complete specificity. For example, the underlier may be a commodity, index, or a custom index, *i.e.* underliers that will not have an International Securities Identification Number ("ISIN"). The Harmonisation Group should consider the degree of categorization needed to understand the underliers without requiring specificity that would be unnecessarily burdensome.

In addition, unnecessary specificity can compromise counterparty confidentiality. Some asset managers utilize swaps that are thinly-traded or bespoke. As such, disclosing information about a product and its contract terms beyond fields already required increases the risk of identifying a counterparty and its trading strategy. For this additional reason, the UPI should not require further granularity for its own sake.

Finally, AMG requests that the Harmonisation Group consider the system constraints of market participants, including asset managers, and the evolution of derivatives products in making recommendations. Specifically, we ask that the Harmonisation Group recommend a UPI standard that is as simple and short as possible. In order for the UPI to be operationally viable in existing industry systems, the UPI code should be a fixed length with no more than 10 characters. Further, new UPI codes should be promptly available for new derivatives products in order to avoid constraining innovation and to satisfy investor needs.

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[4] Consultative Report at 7.
[5] Consultative Report at 7 (Questions 2 and 3).

Should you have any questions or wish to discuss these matters further, please do not hesitate to contact Tim Cameron at 202-962-7447 or tcameron@sifma.org, 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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