SWIFT Response to CPMI-IOSCO on the Consultative Report on Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch

30 November 2016

General comment:

SWIFT thanks CPMI-IOSCO for the opportunity to provide comments on the Consultative Report on "Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch".

The consultative report refers to data elements available in the ISO 20022 standard. The ISO 20022 standard is being embraced by supervisors across the world as a preferred format for data reporting purposes because the data model which lies at the heart of the standard is the ideal reference point to help regulators, market overseers and reporting firms to harvest, aggregate and interpret data which is unambiguous, clear and equivalent, irrespective of its source. ISO 20022 is particularly appropriate for use in regulatory initiatives because it is an open and transparently-governed standard that is platform-neutral, and free to access, implement, and extend. It provides a universally-agreed language that can be shared by business, legal, and technical experts, greatly simplifying the interpretation and implementation of any regulation defined in that language.

Reporting requirements defined in terms of ISO 20022's unique conceptual Business Model and Business Process layer allow implementers to understand both the regulated financial concepts and the contexts in which the regulation is applicable. The rigour and precision of the definitions found in the ISO 20022 business model make it a particularly suitable resource to ensure that data elements specified in a regulatory reporting context are interpreted consistently by implementers. In addition, once the data elements for a business process have been identified, it is straightforward to create a message definition that can be used to transport the data. In these definitions it is possible to distinguish between a baseline set of common details and national or regional additions, which facilitates tailored reporting at national level, as well as consistent reporting at global level.

The IOSCO Consultative Report appropriately reflects current industry standards that are already in use globally and reflects different market practices existing at a global level.

We thank CPMI IOSCO again for the opportunity to comment. Please do not hesitate to contact us should you wish to discuss our comments further.

Q2: With reference to the definition proposed for the data element "settlement currency" (Section 2.4), is it sufficiently clear that the settlement currency of swaptions is the currency of the underlying swap? If not, should additional language be added to the definition to clarify that?

In the ISO 20022 business model, the definition of the element "OptionSettlementCurrency' specifies "*Currency that must be used to settle the option when it is netted off*". This ensures clarity around the currency that will be used to settle the option at netting, whilst allowing the counterparts to determine whether this currency should be the same currency of the underlying swap or a different currency. In some cases market participants will be hedging their exposure to a currency, but will not want to make/receive settlement in that currency.

Q3: With reference to the alternatives proposed for the data element "payment frequency period" (Section 2.7):

  a) **Are the advantages and disadvantages of the proposed harmonisation alternatives appropriately defined? If not, which aspects should be revised and how?**
  b) **Which of the proposed harmonisation alternatives should be supported and why? Is alternative 2 sufficiently broad to capture all the allowable values that are relevant for an OTC derivatives transaction? If not, which allowable values are missing? Should the list of allowable values under alternative 2 also include the value "intraday"? Please provide examples in which the additional allowable values that you propose would be relevant for an OTC derivatives transaction. Is it preferable to expand the list in alternative 2 with the missing allowable values or to opt directly for the most extensive list of allowable values available in alternative 1?**

Whilst the ISO 20022 Frequency Code supports a rich set of values, this is not necessarily an advantage in all situations. ISO 20022 offers the flexibility to cover many different usage scenarios, but for particular initiatives, such as OTC Derivatives reporting, SWIFT believes that a more limited subset of options will improve reporting data quality. SWIFT's recommendation is therefore that Alternative 2 is adopted.

SWIFT is not aware of any situation in which additional allowable values are required for this purpose.

Q4: In the consultative report on the first batch of data elements (other than the UTI and UPI), the Harmonisation Group proposed the harmonisation of the "identifier of the primary obligor". Based on the feedback received during the public consultation, the Harmonisation Group is considering referring to the same concept with the term "beneficiary". With reference to data elements "counterparty 1 (reporting counterparty)", "counterparty 1 type", "counterparty 2" and "counterparty 2 type" (Sections 2.9–12):

a) **Is it clear that in some jurisdictions the counterparty and beneficiary are always the same entity while in other jurisdictions they may or may not coincide?**
   For example, in the US the counterparty would always coincide with the beneficiary; in the EU this is not always the case as eg in a transaction concluded at the level of the umbrella fund, that fund would be identified as the counterparty, and the sub-fund as the beneficiary.
   Is it necessary to further clarify the term "counterparty" or is it clear enough?
b) **Are there cases in which a transaction involves multiple counterparties that are jointly liable for the whole amount of the transaction? If so, how do you believe that multiple counterparties should be represented?**
c) **In addition to reporting counterparty 2 type, what approach should be taken for natural persons not acting in a business capacity as counterparty 2?**

SWIFT suggests that, for clarity, it would be better to refer to the *two parties to a trade* instead of to the *two counterparties*, as counterparty is a context-sensitive term. We typically either refer to 'Party A' and 'Party B' or to "Party' and 'Counterparty', depending on the context. In the ISO 20022 model, a Trade Party is distinct from a Beneficiary, although indeed in many cases a single entity may play both roles.

Q5: Should the definition of the data element "inter-affiliate" (Section 2.18) take into account the possibility that there is no local definition of affiliated entities under the local regulation of counterparty 1 (reporting counterparty), or is this redundant?

For consistency purposes, it would be useful to refer to the LEIROC principles on direct and ultimate parent relationships in the Global LEI System. These principles are based on the international accounting consolidation standards (IFRS / IAS) to define relationships. If there is no definition in the local regulation, the International Standards could apply.

Q6: With reference to the data element "booking location of counterparty 1" (Section 2.19), is it clear that the location where the transaction is booked for counterparty 1 refers to the location where profit and losses are allocated (be it the location of the headquarters, domestic branch or international branch)?

When the party/counterparty is identified with its LEI, the location can be retrieved from the reference data attributes available from the Global LEI System file. The LEIROC has defined principles for the registration of international branches with their own identifiers. If the international branches are identified with their own identifier, the location can also be retrieved from the reference data attributes.

Q7: With reference to the data element "location of counterparty 1's trading desk" (Section 2.20), is it sufficiently clear who is being referred to as the trader "responsible for executing the transaction"?

Yes, this is sufficiently clear: in the ISO 20022 business model, the definition of the element "ExecutingTrader' specifies "*Trader that executes a trade for an organisation*".

Q8: With reference to data elements "strike price" and "strike price notation" (Sections 2.21 and 2.22), is the proposed format length for "strike price" (Num(18,13)) sufficiently big for strike prices denominated in any currency? If not, what would be an appropriate format length, both for characters before the decimal point and characters after the decimal point?

Num(18,13) is the standard definition for amounts in all ISO 20022 messages. Until now, there has never been a request to extend this definition and the likelihood of exceeding the limit defined in the standard is extremely low - in any currency. The way it is defined in the ISO 20022 dictionary allows for a number of up to 18 digits without fractional digits, or up to 5 digits with 13 fractional digits.

Additionally, the business element 'strike price' is defined as a choice between the following elements: monetary value, a percentage, a yield or basis points, which also allows for more flexibility.

Q9: With reference to data elements "option premium" and "option premium currency" (Sections 2.24 and 2.25), should an option premium payment date be added, to take into account that the option premium may sometimes be paid at the end of the transaction?

In practice, premium payments on options transactions are not always paid in advance. In the ISO 20022 business model, the 'PremiumSettlement' element which specifies both the amount of the premium to be paid by the buyer of the option and its settlement place, also contains a settlement date specifying the date on which the premium must be settled.

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