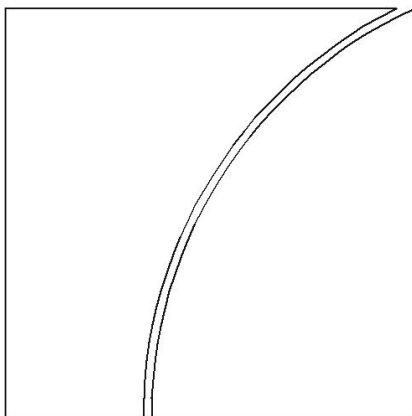Committee on Payments and Market Infrastructures

Board of the International Organization of Securities Commissions

Consultative report

Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch

August 2017

Response form – Hardcopy View

Sections 2.37 to 2.63.

BANK FOR INTERNATIONAL SETTLEMENTS

OICV-IOSCO

Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch – consultative report

Respondent name:	International Swaps and Derivatives Association, Inc. (ISDA). Response for Sections 2.37-2.63, due 15 September 2017.
Contact person:	Eleanor Hsu; Rishi Kapoor; Ian Sloyan; Kaori Horaguchi
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Please flag if you do not wish your comments to be published. Otherwise, this form filled out with your comments will be published on the websites of the BIS and IOSCO.

General comments on the report:

The International Swaps and Derivatives Association, Inc. ("ISDA") appreciates the opportunity to provide the Committee on Payments and Market Infrastructures and the International Organization of Securities Commission ("CPMI-IOSCO") Harmonisation Group ("HG") with comments to sections 2.37 to 2.63 in response to the third consultation ("Consultation") on the Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) ("CDE").

Before proceeding to individual responses for sections 2.37 to 2.63, we have provided a few overarching comments regarding the Consultation and harmonisation work:

Collaboration and Engagement
ISDA and its members appreciate the work of the Harmonisation Group towards our common goal of data standardization. ISDA has been a long-term advocate of globally harmonized data reporting requirements, including the use of aligned formats, definitions, and values for data fields, and globally recognized standards for the UPI, UTI and other critical data elements. We would welcome the opportunity to further collaborate with CPMI-IOSCO to discuss any of the data elements in the Consultation.

Improving Data Quality
Specificity of recommendations in the CDE Technical Guidance will help reduce inconsistent reporting of transaction data elements. We suggest the final CDE Technical Guidance includes:

1. Explicitly clear, robust definitions and examples for each data element:
It would benefit all industry participants if the final CDE Technical Guidance included robust definitions for each data element. We recommend that the HG leverage the ISDA 2006 Definitions, which contains terminology and definitions widely used by market participants to agree and confirm their derivatives transactions for derivatives data elements. Adding more robust definitions in addition to examples in the final Technical Guidance would reduce inconsistencies in the interpretation of each data element and improve the quality of the data reported to repositories.

2.Guidance that allowable values not be padded:
We suggest that the HG recommend that allowable values not be padded with zeros. Looking at Table 3 "Format details," Num (25,5) should explicitly prescribe in 'Additional explanation' that using zeros (0) to fill places should not be permitted. Therefore, 12345.67 would not be reported as 000012345.67 or 00012345.670 for a Num(8,3) format. Our view is consistent for data elements 2.37, 2.38, 2.42, 2.43, 2.46, 2.48, and 2.51.

We believe this will help reduce reporting inconsistencies and increase the chance of matching in dual-reporting regimes.

3. Guidance when a data element is not applicable for a particular transaction:
It is currently unclear for each data element what to report if the data element is not applicable for a particular transaction. We suggest that the allowable value for each data element specifies what is permitted for reporting for these instances. For example, for 2.49 Option premium, the only allowable value listed is "Any number greater than zero." If the transaction is not an option, and therefore the data element is not applicable, we believe what is meant is that 'blank' is an acceptable allowable value for reporting, but because it is not explicitly stated, there is possibility for inconsistencies in reporting. We suggest the CDE guidance provides a prescriptive recommendation within allowable values for each data element, for whether "Not Applicable" or a 'blank' field would be permitted.

We take this opportunity to note that reporting of "Not Applicable" (or "N/A") as an allowable value implies that the party has actively determined that the data element does not apply to the transaction and implies a level of due diligence that may not be capable of automation in firms' systems for every single data element.

2.37–2.41 Data elements related to "Price"

Q6: With reference to the data element "Price" (Section 2.37), are there OTC derivative transactions products where the price or a concept of price is not captured under the "Price" data element or any other data element including "Fixed rate", "Spread", "Strike price", "Option premium" and "Other payment type (upfront payment)"? If so, please provide detailed examples of those products. Would the industry benefit from additional guidance for the "price" data element?

Yes, additional allowable values for 2.37 Price would benefit the industry. In certain Commodities asset class transactions, in order to calculate a fixed rate whereby market participants are indifferent between paying (receiving) the fixed rate over time or paying (receiving) a rate that can fluctuate over time, the value of the swap is set equal to 0 (zero) at origination.

For post-priced swaps, the price and size of the transaction will be determined at some point later (for instance EOD) as a result of the specified pricing methodology or fixing. Post-priced swaps occur across asset classes, although prevalent in equities.   An example of a post-priced swaps would be Commodity Index trades which do not obtain a final fixing until the end of the day. ISDA recommends that an additional value of "price not known at time of reporting" be added for 2.37, and that the reporting party be allowed to report post-priced swaps without a price with the ability to update the report with the price when available.

We therefore propose the below allowable values for 2.37 Price be added:
If Price Notation = 0: Any value equal to zero.
If Price Notation = 3: Price not known at time of reporting.

Q7: With reference to the data element "Price notation" (Section 2.40), is it clear and unambiguous which price notation (amount or percentage) should be applicable to each price? If not, which ones? Are there additional price notations that should be allowed? If so, which ones? Would the industry rather benefit from additional guidance for the "price notation" data element?

We believe some clarification is needed related to 2.40 Price notation:
For allowable value 2, we propose that a decimal number, and not a percentage, be used, which is more aligned with market practice for Price.

We suggest the Technical Guidance specify that 2.39 Price currency would not apply in cases where 2.40 Price Notation is a Percentage, for clarity.

In terms of additional price notations, ISDA has made previous submissions to regulators on the need to allow more than the values, including (but not limited to) amount, percentage, basis points and currency. We note that spread is also a form of price notation that will be captured under data element 2.43.

The industry would benefit if the Technical Guidance included specificity about (a) which fields are expected to be populated as a set, with examples for Price notation, Price-related and Spread-related data elements, to help the industry understand the groupings of related data elements more clearly and therefore report them consistently, (b) how to report a transaction which has multiple price notations and prices, and (c) how to populate a particular field for a data element when it does not apply for a particular transaction. Also refer to our comments in "General comments on the report."

Q8: With reference to the data element "Price unit of measure" (Section 2.41):

(a) Can commodity derivatives be negotiated in different unit of measures for the price and quantity? If so, would industry support two separate data elements for the (1) Price unit of measure and (2) Quantity unit of measure?

Yes, commodity derivatives can be negotiated in different unit of measures for the price and quantity. For example, a party could contract crude oil in metric tonnes, but pay for the contract in US$ per barrel.   Further, it is possible to have a multiplier factor between the price and quantity, depending on the specific gravity/density of the particular type or grade of crude oil (in this example).

Yes, ISDA and its members would support two separate data elements for Price unit of measure and Quantity unit of measure. Further, we suggest the Technical Guidance specifies that one is not applicable when the other one is populated, for clarity.

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Sections 2.37 to 2.63 Response – Hardcopy View.
September 15, 2017.

(b) The list of allowable values in Table 4 in Annex 1 encompasses all the values included in ISO 20022's Unit of Measure Code and four additional values.

    (i) Are the values useful for reporting the Quantity Unit of Measure and the Price Unit of Measure?
    (ii) If not, which ones are less useful and why?
    (iii) Are there other values that should be added? Which ones, and why?
    (iv) Are there duplicates or similar values that should be removed?

(i) For 2.41 Price Unit of measure, having a list of allowable values, such as those in Table 4, is valuable for reporting, however, Table 4 contains codes which are not widely used for reporting within the industry, so mapping to existing coding schemes would be needed.

(ii) In general, providing more precise definitions and/or clarification of abbreviations in the Harmonisation Group's final global recommendations would help consistent reporting. Examples include:

- "TON" - define more precisely, i.e. specify whether the TON is defined as the "short ton" of 2,000 pounds using the avoirdupois system.
- "BTU" - include the long name of British Thermal Units.
- Where units refer to degrees of temperature, specify F(ahrenheit) or C(elsius). Since not all "heating degree days" are calculated based on the same reference temperature, reference the precise definition of the calculation.

(iii) We suggest the addition of a value for Giga Joules, commonly used for Natural Gas contracts in Canada.

(iv) No additional comment.

For 2.41 Price Unit of Measure, 2.57 Quantity Unit of Measure and 2.74 Basket constituents, the HG has recommended four additional Units of Measure which are outside of the ISO 20022 standard in Table 4. Referencing an internationally recognized standards system, but providing additional ad hoc values may indicate that the international standard may not be fit for purpose for the particular data elements. Allowing exceptions for the ISO 20022 in Table 4 and CNH for ISO 4217 means that the CDE governance framework and process will need to be sufficiently responsive and robust to accommodate changes/additions dependent on market needs, especially considering approximately 21 data elements of the third batch would be impacted. However, in general, ISDA's members support CPMI-IOSCO's approach of pointing to a reference list of units of measure, but recommend that the final CDE Technical Guidance refer to a list which is easily updated and informed and governed by derivatives industry experts.

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Sections 2.37 to 2.63 Response – Hardcopy View.
September 15, 2017.

Other comments on the data element "Price", "Price schedules", "Price currency", "Price notation" and "Price unit of measure":

2.38 Price schedules:
Related to our response to 2.37 Price, we propose that 0 (zero) be added as an allowable value for 2.38 Price schedules.   Generally, the first period of calculation (and therefore price) is the period between the Effective Date and the first Period End Date. Thereafter, the calculation period is the time between Period End Dates. On this basis, we propose revision of 2.38.1 and 2.38.2 to:

2.38.1   Effective Date
2.38.2   Period End Date

As noted in "General comments on the report," providing examples and robust definitions in the final Technical Guidance would help reduce inconsistencies in the interpretation of each data element and improve the quality of the data reported to repositories. We propose leveraging terminology from the ISDA 2006 Definitions, which are currently used by the industry. For example:

"Effective Date" (2.38.1) means, in respect of a Swap Transaction, the date specified as such in the related Confirmation, which date is the first day of the Term of the Swap Transaction. The Effective Date shall not be subject to adjustment in accordance with any Business Day Convention unless the parties specify in the related Confirmation that the Effective Date will be adjusted in accordance with a specified Business Day Convention.

2.39 Price currency, 2.44 Spread currency, 2.47 Strike price currency, 2.60 Other payment currency:
We support the proposal to standardize this data element using ISO 4217, but advise against allowing for exceptions such as CNH. Doing so defeats the purpose of having a list of standard values and raises the potential for inconsistent reporting. As a solution, we propose leveraging the existing industry approach in which an additional data field ("Place of settlement") can be used to report the location of settlement of the trade.

For reporting purposes, ISDA believes that the list of ISO 4217 currencies is too restrictive and FpML has developed a model which address this. The FpML solution:
- Allows for both use of ISO 4217 as well as non-ISO 4217 codes.
- Provides a single source of reference for non-ISO currencies, while ISO continues to publish and maintain the ISO 4217 currencies.
- Makes available a maintenance process to allow the list of non-ISO currencies to be updated quickly and transparently while maintaining consistency with ISO 4217.

Further details on the FpML solution can be found at http://www.fpml.org/docs/FpML-AWG-Expanding-the-Currency-Codes-v2016.pdf. ISDA encourages CPMI-IOSCO to adopt a similar solution where the HG recommends an objective reference source for non-ISO such as the FpML model for non-ISO currencies.

2.42–2.50 Data elements related to "Fixed rate", "Strike price" and "Option premium"

Q9: With reference to the data element "Spread notation" (Section 2.45), is it clear and unambiguous which notation (amount or percentage) should be applicable to each spread? If not, which ones? Are there additional spread notations that should be allowed? If so, which ones? Would the industry benefit from additional guidance for the "spread notation" data element?

> For 2.43 Spread and 2.45 Spread Notation: We propose that for 2.45, allowable value 2 = Basis Points instead of Percentage, and accordingly, 2.43 be revised to "If Spread notation = 2, any value in basis points" to align with market practice. Therefore, the allowable value of 257 (bps) would be used in the Consultation example cited for 2.43.

Other comments on the data element "Fixed rate", "Spread", "Spread currency", "Spread notation", "Strike price", "Strike price currency", "Strike price schedules", "Option premium", "Option premium payment date":

> 2.42 Fixed rate, 2.43 Spread, 2.46 Strike Price, and 2.48.3 Strike Price Schedules, 2.49 Option premium: Refer to our comments in "General comments on the report" regarding padding with zeros.
>
> 2.44 Spread currency: For clarity, we suggest that the CDE guidance clarifies that this data element is not applicable if 2.45 Spread notation is 2 = Percentage. Regarding allowable values of ISO 4217 and CNH, see our response to Q8 for 2.39 in "General comments on the report."
>
> 2.47 Regarding allowable values of ISO 4217 and CNH, see our response to Q8 for 2.39 in "General comments on the report."
>
> 2.48 Strike price schedules: We suggest that the Definition also state that 2.48 is not applicable for transactions with strike prices that do not vary throughout the life of the transaction.
>
> It is not clear from the current 2.48 Definition what the HG expects for reporting of American options and recommend it be specified.
>
> We suggest the final Technical Guidance include definitions of option types and propose leveraging the ISDA 2006 Definitions:
> a) American. "American" means a style of Option Transaction pursuant to which the right or rights granted are exercisable during an Exercise Period that consists of a period of days.
> b) Bermuda. "Bermuda" means a style of Option Transaction pursuant to which the right or rights granted are exercisable only during an Exercise Period which consists of a number of specified dates.
> c) European. "European" means a style of Option Transaction pursuant to which the right or rights granted are exercisable only on the Expiration Date.
>
> 2.49 Option premiums: Not all options have a premium. Sometimes, an option premium is embedded in the swap premium such that it is part of the rate that would be reported for the underlying swap and cannot be separately reported. Therefore option premium should not be a required data element for all options.   In other cases, the option premium can be negative and therefore payable from the seller to the buyer of the option.   Lastly, it is also possible for the Option premium to be zero. Therefore we propose that 2.49 definition and allowable values should be amended to accommodate these cases. We also propose leveraging the ISDA 2006 Definitions for data elements such as Option premium.

2.51–2.52 Data elements related to "Exchange rate"

Comments on the data element "Exchange rate" and "Exchange rate basis":

Given that these fields may not be applicable to all products, such as single currency fixed-float swaps, there should sufficient guidance on the validation rules that should be in place to determine when it would be mandatory for 2.51 Exchange Rate to be populated. Validation rules for product types where exchange rate data elements would be mandatory to report could be defined based on the classification of products used in the existing ISDA Taxonomy. Alternatively, in cases where the fields are mandatory for all products, a default value of 1 could be populated for 2.51 Exchange rate and 2.52 Exchange rate basis, which would be based on notional currency 1/notional currency 2 where there is a possibility for both currency codes to be identical, such as in the case of single currency swaps.

For 2.51, refer also to our comments in "General comments on the report" regarding padding with zeros.

2.53–2.54 Notional amount and Notional amount schedules

Q10: With reference to the data element "Notional amount" (Section 2.53), are there particular cases where the notional amount may not always be known when a new transaction is reported and may be updated later? If so, which ones?

Yes, there are cases where the notional amount is not always known at the time a new transaction is reported. Examples include:
- Event-dependent notional schedules for Interest Rate Swaps, where if a reference rate goes above a certain level, there would be a step-up to the notional.
- Variable notional swaps (VNS). There is currently no standardized way of reporting swaps with variable notional over time, amortizing or accreting swaps. Providing guidance on notional reporting for non-standardized products in the final recommendations will help resolve inaccuracies in the way data is currently reported. ISDA recommends that the notional at the start of the swap should be reported using 2.53, with the corresponding notional schedules reported using 2.54.
- Forward starting MTM cross currency swaps and spot starting MTM cross currency swaps traded earlier in the day before the MTM FX exchange rate has been set have a known constant notional, but the variable notional is unknown at the time of execution, since the MTM FX exchange rate is not fixed. While for spot starting the MTM FX exchange rate will be known shortly after execution, the same will not be known for MTM FX forward starting cross currency swaps, until the first FX fixing shortly before the effective date, which could take place a long time after execution of the transaction.

Other comments on the data element "Notional amount" and "Notional amount schedules":

2.53 Notional amount: The final Technical Guidance should specify whether the change in notional or the outstanding notional should be reported for post-trade events such as novations and compressions.

2.54 Notional amount schedule:
Similar to our response to 2.38 for Price schedules, we propose that the Definition for 2.54.2 be revised to Period End Date to align with the terminology used in the ISDA Definitions, and propose that the final CDE Technical Guidance leverage the ISDA 2006 Definitions and terminology already widely used by the industry.

2.55–2.57 Data elements related to "Total notional quantity"

Comments on the data element "Notional quantity schedules", "Total notional quantity" and "Quantity unit of measure":

For 2.56, it is unclear whether "flat notional" refers to aggregate or average notional. In line with "General comments on the report," a clear definition in the final technical recommendations would eliminate uncertainties and improve reported data.

2.58–2.63 Data elements related to "Other payments"

Comments on the data elements "Other payment amount", "Other payment type", "Other payment currency", "Other payment date", "Other payment payer", "Other payment receiver":

2.59 Other payment type: For #4 Novation, it is unclear how this will be reported. The novation fee is only known to the transferor and transferee, and is not disclosed to the remaining party.

Not all systems currently capture 'type' of payments, so recommendation of this data element in the final Technical Guidance would require sufficient lead time for builds.

2.60 Other payment currency: Regarding allowable values of ISO 4217 and CNH, see our response to Q8 for 2.39 in "General comments on the report."

Other comments

We believe the industry would benefit if the final recommendations on CDE specified whether reporting of multiples (multiple sets) of each particular critical data element is permitted. For example, in cases where there are multiple option premium dates, we suggest that 2.50 specify how this would be achieved so that reporting in such cases is consistent. In the current presentation, the format of each data element appears to only allow it to be reported once for a particular transaction.