Unique Product Identifier (UPI) as a replacement for ISIN for the purpose of instrument identification in UK MiFIR / MiFIR Transparency

November 2023

Introduction

The ISIN has been used to identify reportable instruments in UK MiFIR / MIFIR post-trade transparency requirements since the implementation of MiFID II in 2018. However, the current reporting does not provide an efficient method of instrument identification due to the overly granular nature of the OTC International Securities Identification Number (ISIN), which can result in the same product receiving a different ISIN every day due to the inclusion of attributes such as "Maturity Date." ISDA believes that regulators should specify that OTC derivatives are identified, for the purposes of transparency requirements, based on the Unique Product Identifier (UPI), augmented with some key trade-level attributes. This would provide a far superior platform by allowing the users of transparency data to aggregate and perform meaningful analysis on instrument pricing across the market. These additional attributes would ensure that OTC derivatives could be identified and aggregated in a way that is most useful to market participants whilst providing sufficient granularity to distinguish between different products. There are likely to be in the region of 700,000 UPIs available to market participants when UPIs are required to be included as a field for the reporting of derivative contracts for the first time in January 2024, in comparison to 112 million OTC derivative ISINs that have been created since their inception.

We believe that introducing the UPI for MiFIR post-trade transparency reporting will provide a long term, viable solution for market participants. UPI was defined by global regulators and is governed by the International Organisation for Standardisation under ISO4914, meaning that it is a suitable standard for OTC derivatives moving forward. There are multiple global derivatives reporting rewrites in 2024, all of which will mandate the use of UPI for at least a subset of reportable transactions. As such, the majority of market participants are already working on assigning UPIs to their existing reportable trade population.

Scope

The revised scope of MIFIR post-trade transparency reporting will be based on a set of centrally cleared derivatives that are subject to the Derivatives Clearing Obligation with a focus on specific whole year tenors. The liquid tenors covered would be representative of the majority of reportable volume, allowing for meaningful comparison of the reported data by market participants.

Uncleared and non-vanilla trades that are not subject to the DCO (even if they are / can be cleared) should be excluded. These products contain non-standard features included in the price, such as CVA, and therefore do not provide a consistent basis for comparison with the wider population of trades subject to the DCO.

UPI+ Design

The adoption of 'UPI+' as a replacement for OTC ISIN would mandate the use of the existing ISO4914 UPI for OTC derivatives in transparency reporting, supplemented with the addition of key trade-level attributes that would result in meaningful transparency data for recipients. ISDA has worked with its members to review the existing fields in scope for UK MiFIR / MiFIR transparency reporting, with a view to identifying any fields that should be amended or added to the RTS to accommodate the use of UPI in relation to the revised scope of MIFIR post-trade transparency. ISDA has attempted to leverage existing reportable attributes that participants would currently be submitting under other articles of MiFIR or for alternative reporting jurisdictions to avoid the creation of entirely new reporting attributes.

Amendments to Existing Fields

ISDA has reviewed the existing fields that are currently in scope for transparency reporting with a working group of market participants and has concluded that the only existing fields that would require any changes in order to mandate the use of UPI for OTC derivatives in transparency reporting would be the instrument identification fields, as detailed below.

Details	Financial Instruments	Description/Details to be published	Comments
Instrument identification code type	For all financial instruments	Code type used to identify the financial instrument	This field should be updated to mandate the usage of UPI for OTC derivatives
Instrument identification code	For all financial instruments	Code used to identify the financial instrument	This field should be updated to mandate the usage of UPI for OTC derivatives

New Fields to Augment UPI

In addition to evaluating the existing RTS fields, ISDA has performed a detailed review of data attributes for the in-scope product types to identify those that would have a material impact on price. The inclusion of these attributes, ISDA believes, will provide significant value to market participants in facilitating the effective aggregation and analysis of transparency data.

Details	Financial Instruments	Description/Details to be published	Comments
Effective Date	For OTC derivatives	Effective date of the contract	The combination of Effective Date, Termination Date and the existing "Trading Date and Time" field will allow the tenor of the contract to be derived
Termination Date	For OTC derivatives	Termination date of the contract	The combination of Effective Date, Termination Date and the existing "Trading Date and Time" field will allow the tenor of the contract to be derived
Clearing House LEI	For OTC derivatives	Valid LEI for a registered CCP	This field should be added to provide visibility of differing prices between CCPs
Spread	For OTC derivatives	The spread on the floating leg	The spread for certain IRS trades containing a floating leg is considered a price-impacting field and therefore warrants inclusion. As this is only relevant for a subset of IRS, a value of 0 should be allowed where no spread exists
Up-front payment	For CDS instruments	The Up-front payment exchanged as part of the CDS	Only relevant in the context of CDS, the up-front payment is considered a price-impacting field and therefore warrants inclusion

Conclusion

For the reasons set out in this document, ISDA believes that the future revision of UK MiFIR / MiFIR should mandate the use of UPI+ for the reporting of OTC derivatives under the revised transparency requirements.