

Asset Class Tie-breaker Logic

This version includes a correction in the Commodities table in “Determination of RP/UTI Generating Party by Asset Class” to reflect ‘reverse ASCII’ to align with the Commodities introductory statement. This corrected version supersedes the original one published on March 12, 2018.

This note outlines the best practice asset class tie-breaker logic which was developed by ISDA working groups and adopted by the industry to determine which party will fulfill certain obligations under jurisdictional or global trade reporting requirements.

Background

The ISDA asset class tie-breaker logic was developed by ISDA working groups in order to provide an industry-agreed methodology to determine the reporting counterparty (“RP”) and/or the Unique Trade Identifier generating party (“UTI GP”). Because of the different characteristics and workflows of the asset classes - Rates, Credit, Equity, Commodity and FX – ISDA leveraged its asset class working groups to analyze specific trade attributes and workflows to formulate the appropriate logic for products under each asset class, as outlined below.

The resulting asset class tie-breaker logic is currently used by market participants to:

- determine RP in the U.S. (CFTC);
- determine RP/UTI GP in Canada (Ontario, Manitoba, and Quebec);
- determine the UTI GP, globally.

In the future, ISDA anticipates application of this logic to determine the RP/UTI GP in the U.S. for the SEC, and to determine RP/UTI GP in the remaining territories and provinces in Canada.

ISDA has recommended that CPMI-IOSCO adopt the ISDA asset class tie-breaker logic in their recommendations for a global UTI standard to determine the party responsible for generating the UTI.

Determination of RP/UTI Generating Party by Asset Class

1. CREDIT

When asset class tie-breaker logic needs to be applied, the RP/UTI generating party is the Floating Rate Payer (a/k/a the ‘Seller’). For Swaptions, the RP/UTI generating party is the Floating Rate Payer of the underlying Swap.

For novated transactions, the RP/UTI Generating Party should be reassessed between the Transferee and Remaining Party based on the above.

2. RATES

Product Attribute Determination

Tie Breaker Logic - Rates		
Trade Type	Explanation	Reporting Party
Cap/Floor	When a single Fixed Rate Payer exists	Fixed Rate Payer. Otherwise Reverse ASCII sort, first LEI
Debt Option	All	Option Buyer
Exotic ¹	All	Reverse ASCII sort, first LEI
FRA	All	Fixed Rate Payer
IRS Basis	All	Reverse ASCII sort, first LEI
IRS Fix-Fix	All	Reverse ASCII sort, first LEI
IRS Fix-Float	All	Fixed Rate Payer
IRSwap: Inflation	When a single Fixed Rate Payer exists	Fixed Rate Payer. Otherwise Reverse ASCII sort, first LEI
IRSwap: OIS	All	Fixed Rate Payer
Swaption	All	Option Buyer
XCCY Basis	All	Reverse ASCII sort, first LEI
XCCY Fix-Fix	All	Reverse ASCII sort, first LEI
XCCY Fix-Float	All	Fixed Rate Payer

Reverse ASCII Sort Logic

When the Legal Entity Identifier (“LEI”) tiebreaker is invoked the following processes will be used:

1. Identifier Tiebreaker Logic Scenarios
 - i. When only one firm has an LEI then the party with the LEI is the RP/UTI GP.
 - ii. When both firms have an LEI then determine based on comparison of the two LEI in accordance with the below.
2. Determining sort order of identifiers
 - LEI are comprised of characters from the following set {0-9, A-Z}.
 - For avoidance of doubt, before comparing IDs convert all IDs to UPPER CASE only.

¹ Cancellable Swaps are categorized as ‘Exotic’ in line with the work completed in partnership with several supervisory authorities in March 2010 - G14 firms committed to drive a high level of product, processing and legal standardization in each asset class with a goal of securing operational efficiency, and mitigating operational risk. The resulting standardization documents are located on ISDA’s website at <http://www2.isda.org/attachment/Mzk3Mg==/Standardization%20Legend%20for%20Rates%20Final.pdf>.

- For comparison basis the sort order will be reverse ASCII sort order. For avoidance of doubt the following are sort order of precedence:
 - Z, Y, X, W, V, U, T, S, R, Q, P, O, N, M, L, K, J, I, H, G, F, E, D, C, B, A, 9, 8, 7, 6, 5, 4, 3, 2, 1, 0.

3. When comparing two IDs the RP/UTI GP will be the firm with the first ID in the list when arranged in reverse ASCII sort order.

3. COMMODITIES

A seller convention applies if the executed trade is one of the trade types enumerated in the table below. Otherwise, the LEIs of the parties should be compared in reverse ASCII sort order and the party with the first ID in the list will be the RP/UTI generating party.

Tiebreaker Logic - Commodities		
Trade Type	Explanation	Reporting Party
Fixed Floating Swap	Seller of the Fixed leg = Reporting Party	Fixed leg seller (Receiver of Cash on the fixed leg)
Option	Receiver of premium payment or Option writer	Seller
Swaption	Receiver of premium payment or Swaption writer	Seller
Option Strategies (Collars, Corridors, Multi-leg)	Premium receiver is the Seller = Reporting Party	Premium Receiver
	If no premium, use Reverse ASCII sort logic	Use Reverse ASCII sort logic
For trade types not listed above	Any trade that falls outside of that list will have the reverse ASCII convention applied based on the LEI. The LEI selected as the RP/UTI GP will be the LEI at the top of that sort order. As an example, ASCII is the same sort logic that MS Excel applies.	

4. EQUITIES

The RP/UTI Generating Party will be the:

- Seller of performance on any product in the taxonomy².
- Seller of product on all other (exotic) products in the taxonomy.
- If seller cannot be identified the fall back would be for the parties to agree amongst themselves.

² <http://www2.isda.org/functional-areas/technology-infrastructure/data-and-reporting/identifiers/upi-and-taxonomies/>

- For Portfolio Swaps Agreements (PSA's) the seller will remain the seller regardless of the underlier's performance.

For the avoidance of doubt, if the trade is confirmed via negative affirmation, the provider of the negative affirmation agreement is the RP/UTI Generating Party.

5. FX

When asset class tie-breaker logic needs to be applied:

- For Cash trades: The RP/UTI Generating Party is the counterparty selling the currency that occurs first in the 26-letter English alphabet (the "FX Cash Rule").
- For Options: The RP/UTI Generating Party is the seller of the option.

Tie Breaker Logic - FX		
Taxonomy	Rule	Comment
Forward	FX Cash Rule	For FX Swaps, the UTI Generating Party of both legs of the swap would be determined by applying the FX Cash Rule to the far-leg of the Swap
NDF	FX Cash Rule	n/a
Option	Option Seller Rule	n/a
NDO	Option Seller Rule	n/a
Simple Exotic	Option Seller Rule	n/a
Complex Exotic	See comment	For a complex exotic product where there is an unambiguous seller of the product, then Option Seller Rule would apply. The seller determination would be driven by the seller as agreed in the standard FpML representation of the product. IF there is no clear seller, then the FX Cash Rule would apply.

RP/UTI GP Determination for Prime Broker Intermediated Transactions

An alternative approach to RP/UTI GP determination applies to transactions intermediated by a Prime Broker ("PB"). In brief and in very general terms, under customary PB arrangements, a client of a PB agrees on the terms of a PB intermediated trade with an Executing Broker ("EB") and then the client and/or the EB gives up the trade to a PB for its acceptance. If the trade terms are within certain pre-agreed parameters and the PB thus accepts the trade, the result is two off-setting transactions, one between the EB and PB and the second between the PB and the client. In these cases, reporting and UTI generating responsibilities are assigned as follows:

- EB is the RP/UTI GP for the EB-PB trade
- PB is the RP/UTI GP for the PB-Client trade

For the avoidance of doubt, there is no separate transaction between the EB and client to report.