Best Practice Approach to Global Unique Trade Identifiers (UTI)

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Agenda

- ISDA Reference Data & Workflow Working Group – Introduction
- Global UTI Workflow Whitepaper – Scope; Key Principles
- UTI Prefix – Construct and Waterfall
- UTI Communication Flows – Selected Examples
- Conclusion and Next Steps
ISDA Reference Data & Workflow Working Group

Introduction
ISDA Reference Data & Workflow Working Group

Within Industry Governance Committee (IIGC) infrastructure

Scope and Goals
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Global UTI Workflow whitepaper

• “Unique Trade Identifier (UTI): Generation, Communication and Matching”

• Scope: an overview of generation, communication and matching of the Unique Trade Identifier (UTI).

• Counterparties need to report using a common identifier to be compliant with regulation.

• The paper:
  – Outlines best practices, unless otherwise negotiated between Parties.¹
  – Follows findings conveyed in ISDA’s “Unique Swap Identifier (USI): An Overview Document.” (updated 5 September 2013)
  – Is a living document, so will be updated in as a result of discussions and views of industry participants and evolving trading standards and practices.

¹ Note that the best practice UTI construct outlined in this whitepaper is not subject to bilateral negotiation.

Key Principles
Key Principles - Overview

Global UTI Workflow whitepaper

1) All trades should have a Unique Trade Identifier (UTI) which is generated, communicated and, for historical trade populations, matched.

2) If a trade requires a Unique Swap Identifier (USI), this should be used as UTI.

3) Determination of who generates the UTI for paper trades should follow existing industry best practices for that asset class. For trades where the UTI Generating Party (GP) is unclear, the Parties can agree bilaterally on who will be the UTI GP. Examples include:

- FX – Seller of the option will generate UTI.
- Credit - Where floating rate payer (seller) can be identified, then float rate payer generates UTI.
- Rates – For a Fix-Float IRS, the payer of fixed will generate UTI.
- Equities - Seller of performance on any product in the taxonomy will generate UTI.

Refer to "Unique Trade Identifier (UTI): Generation, Communication and Matching" for further details.
Key Principles – Overview (cont’d)
Global UTI Workflow whitepaper

4) UTI generation, communication and matching should occur at earliest possible point in trade flow. In order of preference:

• Centrally executed trades: reference is generated and communicated at point of execution on a platform that can generate a UTI and ensure uniqueness.
• Up-front affirmed: reference is generated and communicated at point of submission to an affirmation platform or service.
• Electronic confirmation matched (post-trade): reference is generated at submission and communicated at point of confirmation.
• Paper trades: unless otherwise communicated, a reference is generated by individual firms who share via paper, and update their reporting to reference the UTI for the trade, once agreed by Parties.
Global Unique Trade Identifier (UTI) Prefix

Construct and Waterfall
UTI Prefix Construct & Waterfall

Based on the global (pre-)LEI system

- In order to ensure uniqueness across all reportable transactions, a Unique Trade Identifier (UTI) is comprised of 2 parts, illustrated on slide “UTI Prefix and UTI Construct”:
  1. a UTI Prefix that is unique to the party generating the UTI; and
  2. a Transaction Identifier

- Provided the UTI Generating Party (GP) ensures it always issues a new Transaction Identifier in relation to their UTI Prefix, each UTI should be unique.

- In order to ensure each party has a reserved UTI Prefix, the industry has agreed the approach described on slides “UTI Prefix Waterfall.”
UTI Prefix Construct & Waterfall
Based on the global (pre-)LEI system

• Parties should first look to use the CFTC USI Namespace as UTI prefix.

• Since the USI Namespace is only available to those who register with the CFTC\(^3\), not all trading counterparties are going to have one.

• If a Party has neither, and needs to generate a UTI for global reporting, use characters 7-16 of the global (pre-)LEI as the 10 character UTI prefix.

Waterfall⁴ - UTI Prefix

Based on the global (pre-)LEI system

Do you have a CFTC USI Namespace?

Yes
- Use the Namespace as UTI Prefix

No
- Have a 20 character global LEI?

Yes
- Use characters 7-16 as UTI prefix

No
- Obtain a 20 character global LEI

Use characters 7-16 as UTI prefix

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⁴(a) If a trade is not reportable to the CFTC, but a Party has a USI Namespace, that USI Namespace should still be used.

(b) For UTI prefix, the European Association of Clearing Houses (EACH) recommends that CCPs use the CFTC Namespace where possible. Where a CCP does not have a CFTC issued Namespace, EACH proposes CCPs use the Market Identifier Code (MIC), a 4 alpha character code (ISO 10383), to create the 10 character "MIC Namespace" UTI prefix by starting with 3 zeros, followed by the MIC code, and then three additional zeros. For example “000CCPA000.”
Construct - UTI Prefix and UTI
Based on the global (pre-)LEI system

**UTI Prefix Construct:**

LOU prefix (4) 0 0 Entity-specific portion (12) check digits (2)

Start with the 20 character Global LEI

Parties self-extract 7-16 to use as UTI prefix

**UTI Construct = UTI Prefix + Transaction Identifier:**

Characters 7-16 of Global LEI

Registered Entity Transaction Identifier (maximum of 32 characters with leading zeros)

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UTI Communication Flows

Select Flows from Whitepaper
Electronic Execution

No Allocation

1. **Execution**
   - Platform generates UTI (UTI1)

2. Platform generates UTI (UTI1)

3. Platform shares UTI1 with Party A

4. Platform shares UTI1 with Party B

4. Party B reports UTI1

4. Party A reports UTI1

See “Unique Trade Identifier (UTI): Generation, Communication and Matching” workflow 4.1.1
Paper Trades

1. Execution b/w Parties

2. B (in this example) generates UTI1

3. B reports with UTI1

4. Exchange Confirms; UTI generator B includes UTI1

5. Party A re-reports with UTI1

Party A reports with own trade reference, if UTI1 has not been received by time of reporting

See “Unique Trade Identifier (UTI): Generation, Communication and Matching” workflow 4.2.3
Cleared Flow – Affirm in Middleware
Alpha Trade

1. Execution

2. Trade input into Middleware by Broker or one of the Parties

3. Middleware shares alpha UTI w/ Party A

4. Middleware shares alpha UTI w/ Party B

3. Middleware generates UTI (alpha)

4. Middleware can report for Parties, or Parties can report themselves

Party A can report trade with alpha UTI themselves

Party B can report trade with alpha UTI themselves

See “Unique Trade Identifier (UTI): Generation, Communication and Matching” workflow 4.2.4
Cleared Flow - Affirm in Middleware

Beta and Gamma legs

- **Party A**
- **Party B**
- **CCP**
- **Middleware**
- **TR**

1. **Party A** sends UTI for alpha to CCP.
2. CCP sends UTI (gamma) to **Party B** for gamma trade (direct or via Middleware).
3. Upon clearing, CCP sends new UTI (beta) to **Party A** for beta trade (direct or via Middleware).
4. **Party B** reports trade to **TR** with beta/gamma UTIs (Lifecycle event).
5. **Trade can also be reported by Party A to TR with beta UTI (Lifecycle event).**
6. **Trade can also be reported by Party B to TR with gamma UTI (Lifecycle event).**
7. **Trade can also be reported by Middleware to TR with beta/gamma UTIs (Lifecycle event).**

See “Unique Trade Identifier (UTI): Generation, Communication and Matching” workflow 4.2.4
Novated over Middleware

Trade between original Parties is agreed and already has UTI 1.

1. Original Trade w/ already determined original UTI (UTI1)
2. Stepping in Party agrees novation in Middleware
3. Middleware generates new UTI (UTI2).
4. Middleware shares UTI2 with Remaining Party
5. Middleware can report trade for Parties (UTI2)

Stepping out Party alleges novation in Middleware
Remaining Party agrees novation in Middleware

Remaining Party may need to report they are no longer Principal (UTI 1)
Stepping Out Party may need to report they are no longer Principal (UTI 1)

Remaining Party can report trade themselves (UTI2)

Stepping In Party can report trade themselves (UTI2)

See “Unique Trade Identifier (UTI): Generation, Communication and Matching” workflow 4.4.1
Conclusion and Next Steps
Conclusion and Next Steps

Global UTI Workflow whitepaper

• Achieve broad industry agreement.

• ISDA Reference Data & Workflow Working Group will continue to meet regulators and industry groups to socialize whitepaper.

• As it is a living document, will be periodically updated in line with evolving standards and practices, and discussions and industry views.

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