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Global Foreign Exchange Division  
39<sup>th</sup> Floor  
25 Canada Square  
London  
E14 5LQ

TO:

CPMI Secretariat  
E-mail: [cpmi@bis.org](mailto:cpmi@bis.org)

IOSCO Secretariat  
E-mail: [upi@iosco.org](mailto:upi@iosco.org)

30 September 2016

**Re: Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) second Consultative Report on the Harmonisation of the Unique Product Identifier**

Dear Sir/Madam,

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the second Consultative Report on the Harmonisation of the UPI issued by CPMI and IOSCO on 18 August 2015.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 25 global foreign exchange (FX) market participants,<sup>1</sup> collectively representing approximately 85% of the FX inter-dealer market.<sup>2</sup> Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

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<sup>1</sup> Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays Capital, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

<sup>2</sup> According to Euromoney league tables.

## Introduction

The FX market is the world's largest financial market. Effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for globally co-ordinated regulation which we believe will be of benefit to both regulators and market participants alike.

The global FX market presents some unique challenges for trade reporting when compared with other asset classes. FX forms the basis of the global payments system and as such both the number of market participants and the volume of transactions are high. Notional turnover, per the last BIS report, is US\$5.1 trillion/day.<sup>3</sup>

The high number and diversity within the participants of the global FX market presents many practical challenges in ensuring that those that are required to report actually can do so. As the FX market is global in nature, the reporting of a transaction will often be required to multiple jurisdictions, and any variation in the trade reporting requirements will be required to be adopted by either one, or both, parties to the transaction usually resulting in increased costs and increased operational risks.

The GFXD has consistently promoted and supported efforts to align global trade reporting standards as we believe that consistent trade reporting requirements offer regulators the best opportunity to oversee trading practices and market transparency.

The GFXD welcomes the opportunity to set out our views in response to the Consultative Report.

### Executive Summary

**We suggest that a UPI for a FX Swap is not required; a FX Swap should be represented by two FX Forwards.**

**We believe that the FX UPI should be based on the globally used FX ISDA<sup>4</sup> taxonomy rather than the sub-optimal CFI; the CFI does not offer any additional descriptive benefits and would require a significant, globally coordinated technology change across the whole market to accommodate.**

**We strongly suggest that any data elements are explicitly defined to avoid the current well publicised interpretative issues.**

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<sup>3</sup> <http://www.bis.org/publ/rpfx16.htm>

<sup>4</sup> International Swaps and Derivatives Association, Inc (ISDA)

**Question 1: Do you believe that the data elements within each asset class described above are appropriate? Why or why not? If there are additional subcategories that you believe should be included for one or more asset classes, please describe them and discuss why you believe they should be included.**

Whilst we broadly support the approach proposed, we believe there are certain additional factors to consider, some of which were previously included in our response to the first CPMI-IOSCO consultation on the UPI.

The global FX industry currently uses the ISDA FX Taxonomy (ISDA Taxonomy 2.0)<sup>5</sup>, which defines FX products as: Spot, Forward, NDF, NDO, Vanilla Option, Simple Exotic, Exotic and Continuous FX. We note that the UPI proposal is more akin to the CFI structure which we believe is less optimal for the industry due to its design. We do not believe that the CFI offers additional benefits to the structure currently used by the global FX industry. Shifting from a globally accepted market standard to one which does not offer an opportunity for more accurate instrument identification (i.e. the shift for the global FX industry from the ISDA FX Taxonomy to a UPI based on a CFI taxonomy) does not seem to be an optimal solution. Whilst we understand the challenges with regulatory approval of an industry designed and overseen standard, we would be keen to further investigate ways, in partnership with the regulatory community, to overcome this.

We are also concerned that the approach to base the UPI design on the CFI further distances the UPI from the work the industry has been performing in the design of the International Securities Identification Number (ISIN) structure for the FX market, itself in response to requirements published under the EU Markets in Financial Instruments Regulation (MiFIR)<sup>6</sup>. In order to avoid unnecessary implementation challenges, additional opportunities for data to be misrepresented between parties to a trade and subsequent data quality issues, we strongly suggest that product identifiers are harmonised across jurisdictions.

The proposed ISIN design is based on the standard ISDA FX Taxonomy, in that each financial instrument is defined at the same product family level as that used in the ISDA FX Taxonomy, outlined above. The industry is under great pressure to contribute to the design of an ISIN for FX and implement it before the January 2018 MiFIR go-live date. We are therefore concerned that a divergence between the basic design of a UPI and an ISIN would require the use of independent product identifiers for the same financial instrument, albeit for different regulatory purposes. We believe this to be an inefficient, operationally intensive and less optimal solution.

The GFXD strongly recommends that the UPI construct should therefore mirror the existing standard and globally used industry FX ISDA taxonomy and, where appropriate, leverage the developing ISIN construct.

We would also specifically like to note the deliberate absence of a FX Swap within the ISDA FX taxonomy. The GFXD has historically supported the position that a FX Swap is comprised of a near and a far leg, each of which is considered a FX Forward, each legally independent of each other. This approach is based on the US Commodities Exchange Act (CEA)<sup>7</sup> definition of FX Swaps:

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<sup>5</sup> <http://www2.isda.org/functional-areas/technology-infrastructure/data-and-reporting/identifiers/upi-and-taxonomies/>

<sup>6</sup> Draft Commission Delegated Regulation supplementing MiFIR Article 26, Annex 1, Table 1

<sup>7</sup> Commodity Exchange Act (CEA) 1a(25)

- (a) *an exchange of 2 different currencies on a specific date at a fixed rate that is agreed upon on the inception of the contract covering the exchange; and*
- (b) *a reverse exchange of the 2 currencies described in subparagraph (a) at a later date and at a fixed rate that is agreed upon on the inception of the contract covering the exchange.*

We believe that the addition of a FX Swap UPI will lead to additional industry confusion and a likely increase in data mismatches due to some market participants using a FX Forward UPI instead of a FX Swap UPI.

We therefore suggest that a UPI for a FX Swap is not required.

With respect to the individual suggested UPI reference data elements included in the paper:

- On ‘option type’, the terms ‘put’ and ‘call’ are misleading for a FX Option. All FX trades involve an exchange of two currencies, meaning that in any FX trade, each party is both buying and selling currency. In the case of a FX Option, the buyer of the Option is buying both a put in one currency and a call in the other. This data element is therefore not meaningful for inclusion within an FX UPI.
- On the inclusion of ‘currency pair’ as a data attribute, we believe that there should be an industry standard for which of the two currencies in a pair is regarded as the base currency. Since there is no standard booking model for FX trades, the GFXD created the FX Cash Rule<sup>8</sup> to standardise representation. The rule states that the first currency in any currency pair should be the one which is first when sorted alphabetically according to ISO 4217 code, e.g. CHFUSD rather than USDCHF.
- We have concerns regarding ‘underlying asset/contract type’ for FX. We note that this has been relabelled from the original consultation, however we believe that without explicit clarity on this data element, differing interpretations could arise, particularly if a product has multiple underliers.
- Furthermore, whilst we believe that a UPI for a FX Swap is not required, we would like to comment on the example given, namely that the underlying asset should be either ‘Spot-Forward’ or ‘Forward-Forward’. As noted in our recent letter to CPMI-IOSCO on the identification of the ‘direction’ of FX Swaps and FX Forwards<sup>9</sup>, we believe that the two legs of an FX Swap (as described above) should always be regarded as two Forwards, regardless of tenor. We also consider that the underlier for FX instruments is most frequently considered to be ‘Spot’.

Finally, we strongly recommend that any specific data elements are explicitly defined. The majority of trade reporting breaks seen today are due to data element interpretative issues, which could be easily addressed with globally consistent, explicit definitions.

**Question 2: Do you believe generally that the value “Other” is required in certain data elements? If so, which ones and why?**

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<sup>8</sup> [http://www.gfma.org/uploadedFiles/Initiatives/Foreign\\_Exchange\\_\(FX\)/FX%20Trade%20Side%20201209%20v0%201.pdf](http://www.gfma.org/uploadedFiles/Initiatives/Foreign_Exchange_(FX)/FX%20Trade%20Side%20201209%20v0%201.pdf)

<sup>9</sup> <http://www.gfma.org/correspondence/item.aspx?id=824>

The FX industry uses a standard taxonomy, the ISDA Taxonomy 2.0, as outlined above. In this taxonomy there is no 'other' category, instead the sub-product 'generic' is used. If the final decision is to base the UPI on the CFI structure, then 'other' could be used to denote exotic FX products, which are not standardised, or FX products which are as yet undefined in the ISDA taxonomy.

We do not support the proposal that 'other' should be used as a data attribute itself, unless the UPI guidance defines explicitly how and when it should be used in order to maintain standardisation and harmonisation.

In instances where products categorised as 'other' come to be fully defined in the future, the GFXD believes that there should be no requirement on market participants to update historic trade records. Given the extremely high volume of trades, this would be a significant undertaking that would be of limited benefit to regulators and market participants alike.

**Question 3: For an OTC derivative product based on a custom basket of securities or assets, please provide your view of the optimal means of representing that OTC derivative product. Do you believe that it is practical to include all of the underlying securities or assets and their risk weights in the UPI reference data? If not, how do you believe that the elements of the custom basket and their risk weights should be reported to a TR?**

We support the submission made by ISDA.

**Question 4: How should underlying assets and reference entities be represented in the UPI data library? Would LEIs be suitable, at least for corporate reference entities? Why or why not? Are there suitable identifiers for indices? If not, is it feasible to use an existing identifier such as an ISIN code for them?**

For FX, currencies are represented by the ISO 4217 code, which includes only onshore currencies. The ISO 4217 standard is used as a validation tool in a number of existing reporting regulations, such as the European Market Infrastructure Regulation (EMIR)<sup>10</sup> and Dodd Frank Act<sup>11</sup>. We therefore recommend that this standard is used to represent currencies in the UPI data library, as it is standardised across the industry. Where an offshore currency is used, this should be mapped to the onshore equivalent e.g. CNH to CNY.

**Question 5: Do you envisage any obstacles to including the source of the identifier for the underlier as part of the reference data element for the underlier? Please explain and justify.**

We support the submission made by ISDA.

**Question 6: Could there be issues related to including proprietary benchmarks and indices in publicly available reference data or publicly disseminated UPIs? Please elaborate on any issues, such as licensing, that may exist.**

Not applicable to FX.

**Question 7: What are the arguments for and against the use of a dummy UPI code or an intelligent UPI code, or having both types of code coexisting?**

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<sup>10</sup> See Commission Implementing Regulation (EU) No 1247/2012, Annex 1 Table 2, Fields 5 & 6

<sup>11</sup> 17 CFR Part 45, Appendix 1, Exhibit B

We support the submission made by ISDA.

**Question 8: Do you agree that a well-articulated UPI reference data library could support interoperability between dummy UPI codes and intelligent UPI codes? Why or why not? What steps could be taken with the UPI reference data to facilitate supporting both types of UPI code?**

We support the submission made by ISDA.

**Question 9: What are the minimum and maximum lengths (in terms of number of characters) that you believe the industry could accommodate for a UPI code system? How does this vary between dummy and intelligent codes? What do you believe is the optimal number of characters, and why?**

We support the submission made by ISDA. In addition, we would like to raise the following points:

The FX market is the world's largest financial market, with an extremely broad participant base, both in terms of geographical distribution and technical sophistication. We therefore recommend that the format of a UPI be kept as simple as possible, to facilitate widespread adoption. We support an alphanumeric approach, with no distinction for upper and lower case, and provisions made to ensure that possible confusions are avoided, e.g. between '0' and 'O'.

The UPI should conform to standard message criteria, for example Swift messages, as the majority of trades are communicated by electronic systems.

The standards for a UPI should be of a fixed length, however there should be a provision in the design that specifies how shorter codes can be expressed in the fixed design e.g. use the of '0' to fill empty character positions.

**Question 10: For intelligent codes, how should the information be encoded? Are there existing models for this? How much adaptation would existing models require in order to meet the needs described in this consultation?**

We support the submission made by ISDA.

**Question 11: Do you believe that UPI codes should have an inherent means of validation? For example, should UPI codes include a check digit? Why or why not? Does this vary between dummy and intelligent codes and/or depend on the encoding method used in an intelligent code?**

We support the submission made by ISDA.

**Question 12: Another means of having a simple, partial validation for a UPI code would be for all UPI codes to be of uniform length: thus, any code that was not of the required length could be recognised as prima facie invalid. Do you believe that all UPI codes should be of uniform length? Why or why not? Or are optimal UPI codes of one asset class likely to be longer or shorter than optimal UPI codes for other asset classes? If so, do you believe that extra dummy characters should be inserted into the shorter codes to make them of the uniform length? Why or why not?**

We support the submission made by ISDA.

**Question 13: For an intelligent UPI code, how should underlying the asset(s) or reference entity (entities) be represented within the UPI code? Would it be preferable for the part of the UPI code that represents the underlying asset(s) or reference entity (entities) to be dummy while the rest of the code is intelligent? Why or why not?**

We support the submission made by ISDA.

**Question 14: Should the UPI code system avoid using Roman letters? Why or why not? Are there particular jurisdictions whose computer systems cannot accommodate Roman letters?**

We support the submission made by ISDA.

**Question 15: Would it be preferable for the UPI code system to use only Roman letters, only Indo-Arabic numerals, or a combination of the two? Why? If Roman letters are included in the UPI code system, should they avoid being case-sensitive? If the UPI code system uses both Roman letters and Indo-Arabic numerals, should the system not disallow particular characters that could be mistaken for each other (the lower-case letter “l” and the number “1”, the digit “0” and the upper-case letter “O” etc).**

We support the submission made by ISDA.

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We appreciate the opportunity to share our views on this Consultative Report issued by the CPMI and IOSCO. Please do not hesitate to contact Andrew Harvey on +44 (0) 203 828 2694, email [aharvey@gfma.org](mailto:aharvey@gfma.org), or Fiona Willis on +44 (0) 203 828 2739, email [fwillis@gfma.org](mailto:fwillis@gfma.org), should you wish to discuss any of the above.

Yours faithfully



James Kemp  
Managing Director  
Global Foreign Exchange Division, GFMA