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TO:

FSB Secretariat
E-mail: fsb@fsb.org

Date: 17 November 2017

Re: Financial Stability Board Consultation on the Governance arrangements for the unique product identifier (UPI): key criteria and functions

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 Consultation on the Governance arrangements for the unique product identifier issued by the Financial Stability Board (FSB) on the 3rd October 2017.

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,[1] collectively representing over 80% of the FX inter-dealer market.[2] 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.

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.

[1] Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays, 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.
[2] According to Euromoney league tables.

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.[3]

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, including formal responses to all Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) consultations as well as attending where possible FSB and CPMI/IOSCO roundtables. 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 Consultation document.

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Q1. Do you consider any further criteria should be included in the above list?

The GFXD recommends that specific mention should be made within the list to define that a specific, single entity is ultimately responsible for the governance and overseeing the implementation of the UPI.

Given the global requirements to implement the UPI, and the considerable number of market participants who will be required to implement the UPI, our expectation is that unless there is a single point to escalate issues to and act as an arbitrator should there be differing jurisdictional requirements, it is likely that there will be situations when the UPI governance and issuance process could lack the harmonisation so desired.

Q2. Are there ways in which any of the key criteria should be modified? If so, which ones and how?

The GFXD recommends that the term 'stakeholder' should be defined and we recommend that this should include market participants and regulatory bodies.

Additionally:

4.2 – We suggest that the actual cost for obtaining UPI should be very low, not just 'lean' in nature.

[3] http://www.bis.org/publ/rpfx16.htm

4.3 and 4.4 – We recommend that, should the UPI be suitable for use in other situations, a process needs to be established to manage new or amended UPIs. For instance, there may exist situations where conflicts exist between jurisdictions when functional/regulatory requirements are considered.

4.12 – Consideration should be made to ensuring that multiple UPI providers are all held to the same standards with respect to viability and oversight (e.g. policies, procedures), allowing the market to choose a provider knowing that there is a level of interoperability should their counterparty choose another provider. Harmonisation of UPI should not be compromised.

Q3. Should the UPI System operate on a cost recovery model? If not, what is the suggested alternative and how does it fit with other governance criteria?

The GFXD believes that the UPI system should operate on a cost recovery model.

Q4. How should cost recovery be defined in the context of UPI? How should a UPI Service Provider be permitted to recover its costs? Should start-up, infrastructure, and initial creation of UPI Code costs be treated differently than ongoing maintenance and other continuing costs of operating a UPI Service Provider?

The GFXD recommends that the LEI issuance model would form a good reference point for the UPI issuance process from a cost recovery perspective and we also support the submission made by the International Swaps and Derivatives Association (ISDA).

Q5. How should costs be allocated amongst stakeholders?

The GFXD suggests that, as per our response to Q2, the term 'stakeholders' requires careful definition. It is likely that regulatory bodies could be considered UPI stakeholders, yet guidance suggests that regulatory bodies would not contribute to a UPI Service Provider.

Otherwise, we support the submission made by ISDA.

Q6. How should a UPI Service Provider provide its rationale for calculating cost recovery? What level of transparency and frequency of disclosure of cost by a UPI Service Provider is required to demonstrate that the UPI System is being administered on a cost-recovery basis? For example, should a UPI Service Provider be required to undertake an audit or other type of review of its costs? To whom should transparency be provided (e.g. to Authorities and/or the public) and under what circumstances?

The GFXD understands that post go-live and initial seeding for existing FX products, the ongoing requirements for a new UPI within the FX markets is likely to be low. We therefore suggest that extra transparency into the costing model would be beneficial due to the unlikely scaling opportunities and recommend that the FSB issues a RFP to attract the most cost-competitive and innovative provider (s).

Further transparency should follow that seen with the LEI model.

Q7. Should there be different categories of users to describe entities that interact with the UPI Service Provider(s), utilise the UPI System, or access the UPI Reference Data Library in different ways, such as creation of a UPI Code versus leveraging an existing UPI Code, and at different frequencies? How should those categories be defined and should there be different associated costs based on the type and frequency of use of UPI Codes? How would different cost considerations apply to different aspects of the UPI System?

We believe that there may be a small number of UPI providers, and each will make a commercial decision to offer additional services to meet market demands. We would expect that the basic, fundamental requirements, such as requesting a new UPI or referencing the data library would be for minimal cost. We would expect that multiple providers would help to keep innovation high and costs low and that any providers looking to offer UPI services should be kept to strict, clearly defined industry standards.

Q8. Should access to, and use of, the UPI Reference Data Library (which includes the Data Elements therein) be unrestricted? If not, what types of usage restrictions would be appropriate and to whom should they apply? What would be the consequences, including for harmonisation, of having usage restrictions on the UPI Reference Data Library?

The GFXD believes that the data library should be freely available. However, any changes to the data library should be tightly controlled and governed to centrally defined rules, especially if situations arise where the UPI is used for other, non-reporting, purposes.

We believe that industry expertise should be part of that 'control', leveraging wider stakeholder forums to ensure that any changes are widely agreed and appropriate to reflect industry and regulatory requirements.

Q9. Should the UPI Reference Data Library be subject to any intellectual property restrictions? If so, what types of restrictions would be appropriate? What would be the consequences of having any intellectual property restrictions on the use of, or access to, the UPI Reference Data Library?

Not applicable to FX.

Q10. Are there any types of ownership or membership structures of a UPI Service Provider that could create conflicts of interest? If so, please describe.

The GFXD is not aware of any potential conflicts.

Q11. What kinds of business continuity arrangements would it be reasonable to expect from a UPI Service Provider?

The GFXD believes that any UPI Service Provider needs to operate during the same business hours as the global FX market, including when/if additional services are being provided and this should include business continuity arrangements.

Q12. What Governance Frameworks for other universal identifiers should or should not be considered in designing the UPI Governance Arrangements and why?

The GFXD supports the mechanisms used to operate and support the LEI and we believe that this would form a good starting point for the UPI.

Additionally, we believe that there needs to be considerable industry technical input during the UPI design stage and this should not be limited to a small contingent. The GFXD would willingly offer our assistance where appropriate, noting that we were responsible for the recent ISO SG2 analysis for FX and strongly recommend that a similar process is established for the UPI.

Q13. Which elements of such frameworks would be useful or not useful for the UPI Governance Arrangements and why?

We believe that the accountability and ownership of the LEI provides a suitable framework.

Q14. Do you agree with the two articulated areas of governance identified above?

Yes, the GFXD agrees with the two articulated areas of governance.

Q15. Can you suggest any refinements or modifications to any of the functions therein?

Yes, the GFXD has the following suggestions.

Policy, Procedures and Definitions: To avoid market participants interpreting any terms, all data terms need to be explicitly defined and should correspond to terms used within the industry. This will likely result in the requirement to have product specific definitions and will ensure that the UPI is consistently used across the industry.

5.1.3a: We believe that the final approval of any new product types should not sit within a single UPI Service Provider, but should sit within a higher body that can ensure consistency across all providers, especially if the UPI is to be used for other, non-reporting, purposes.

5.1.3c: We recommend that any assessment of product distribution should require the engagement of industry product experts and would willingly offer our assistance to this exercise.

5.2.3 h, k: We recommend that any assessment of product distribution should require the engagement of industry product experts and would kindly offer our assistance to this exercise.

Q16. Can you suggest any other functions that should be included in the above list?

No comment from the GFXD.

Q17. Could a UPI Service Provider also be expected to develop human readable aliases for UPI Codes to satisfy the needs of particular jurisdictions or other stakeholders? Why or why not?

No comment from the GFXD.

Q18. Are there functions in the list which are not relevant for the UPI in your view and if so which ones and why?

No comment from the GFXD.

Q19. Which entity or entities (or type of entity) would be best placed to perform each of the above governance functions?

The GFXD suggests that a global organisation, such as the FSB, should have final oversight of the whole UPI process.

From a technical perspective, we strongly recommend that there is wide industry involvement, and that this is not restricted or compromised. For instance, we believe that the process used for the ISO SG2 product analysis was very effective, combining buy, sell side and industry infrastructure/vendors. The GFXD would willingly offer our assistance where appropriate.

Q20. Do you see a need for the UPI Reference Data Elements to be standardised by an International Standardisation Body and if so why? Are there aspects in which this would be impracticable? If so, please describe those aspects.

The GFXD strongly supports the establishment of globally consistent and explicitly defined standards and, where possible, interoperable standards to accommodate participants with very differing levels of technical sophistication. These standards should be implemented by a single existing, or newly created International Standardisation Body.

Q21. What benefits of implementation of the UPI, if any, do you see beyond OTC derivatives reporting? Please justify your answer.

For FX, we believe that other post trade services, such as trade reporting and compression, could benefit from a standardised UPI. Central Bank or wider industry reporting may also benefit from a UPI.

Q22. What would be the respective costs and benefits of the different potential models to administer the UPI System specified above?

We suggest that there are pros and cons for both single and multiple providers. For instance, multiple providers will likely lead to a more effective costing model and higher levels of innovation. Conversely, a single provider would likely be of benefit when it comes to technical connectiveness and IT builds.

Q23. What would be the impact on market participants and other key stakeholders of having multiple UPI Service Providers (whether across asset classes or serving the same asset class) in terms of:

(a) cost;

(b) ease of use of the UPI System;

(c) their ability to conform to the UPI Technical Guidance; and

(d) their ability to associate UPIs with products in a timely manner at least to facilitate the discharge of reporting obligations for OTC derivative transactions?

For FX, we expect that post initial seeding of the UPIs for established products, the numbers of new UPIs are likely to be small, which may lend itself better to single or small number of UPI providers.

Q24. Should one or a limited number of UPI Service Providers be selected at the outset? Should the UPI Governance Arrangements allow for additional UPI Service Provider(s) to be incorporated over time?

We suggest that it is helpful to draw reference to other situations where multiple instances of a solution exist, such as the number of trade repositories in Europe. Specifically, the variances in data standard interpretations and functionality have primarily led to reportable differences.

If multiple providers are selected, then there needs to be explicit clarity on exactly how the UPI should be created and that base-services are standardised across all.

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We appreciate the opportunity to share our views on this subject. Please do not hesitate to contact Andrew Harvey on +44 (0) 203 828 2694, email aharvey@gfma.org, or Fiona Willis on +44 (0) 203 828 2739, email fwillis@gfma.org should you wish to discuss any of the above.

Yours sincerely,

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