

BVI's¹ position on the EU Commission's targeted consultation on OTC derivatives identifier for public transparency purposes

Question 1. For reporting reference data of in-scope OTC derivatives for the purpose of public transparency which option do you prefer?

- Option 1: mandating UPI plus additional identifying reference data
 Option 2: mandating ISIN and requiring a change to the ISIN attributes to include the above-mentioned two additional product attributes 'Term of Contract' and "Forward Starting Term"
 Don't know / no opinion / not applicable

Option 1

Question 1.1 - Option 1 - Do you agree with the proposal to mandate additional identifying reference data alongside the UPI (ISO 4914), such as 'Term of Contract' and 'Forward Term of Contract' for interest rate derivatives?

- Yes
 No
 Don't know / no opinion / not applicable

Please explain your reasoning:

In order to avoid unnecessary implementation costs for members caused by separate UPI plus additional data fields implementation, BVI's strong preference is for Option 2.

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Question 1.2 - Option 1 - Do you foresee any challenges and / or cost impacts in terms of system changes required to provide ESMA with the UPI plus certain additional identifying reference data, instead of only reporting a unique product identifier?

- Yes
 No
 Don't know / no opinion / not applicable

Please explain your reasoning:

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets of some EUR 4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.



As BVI notes in question 1.1 in Option 1 above, BVI's strong preference is for Option 2: it explains its reasons for choosing this Option under question 1.1 in Option 2 below.

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Option 2

Question 1.1 - Option 2 - Do you agree that modifying the ISIN by replacing the 'Expiry Date' attribute with the 'Forward Term of Contract' for OTC derivative types which have daily ISINs (e.g., interest rate derivatives) addresses the problems identified with the use of the ISIN for the purposes of public transparency reporting?

- Yes
 No
 Don't know / no opinion / not applicable

Please explain your reasoning:

Since 2002, the BVI has advocated for automation in the financial market based on ISO standards, in particular the use of ISO identification numbers. BVI was instrumental in the EU's regulatory decision on the production of the OTC ISIN through the newly created ANNA-DSB in 2016 and for ensuring that use of the identifier in reporting is offered in as cost effective a manner as possible.

BVI's preference for Option 2 is based on the following considerations:

1. Option 2 is the least complex and burdensome solution from a workflow and systems perspective as these are structured around the ISIN.
2. Data quality is higher in terms of accuracy and standardisation when an identifier is used to report reference data due to the standardised approach: this is crucial if the EU consolidate tape for OTC derivatives is to be successful.
3. the OTC ISIN reference data set includes (1) the corresponding UPI ID itself and (2) the full UPI reference data set; therefore, global alignment with the UPI, and the ability to aggregate using the UPI ID or UPI attributes, are maintained.
4. the attributes of 'Term of Contract' and 'Forward Starting Term' follow the market convention seen in proprietary OTC identifiers and are key factors used by market participants involved in pricing, valuation and trading.

The above considerations mean that the modified OTC ISIN will better serve price transparency and facilitate the introduction of a consolidated tape for OTC derivatives, given that fewer modifications are required compared to the application of Option 1.

In sum we clearly see benefits in Option 2 which allows the buy-side to maintain the existing reporting system which is used for EMIR and for MiFIR transaction reporting without additional reference data cost. At the same time the solution will support the new MiFIR pre and post trade transparency regime whilst supporting global alignment with the UPI.

In contrast, BVI considers Option 1 will be unnecessarily complex and not assist in reducing the regulatory reporting burden for market participants.

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Question 1.2 - Option 2 - Do you foresee any challenges and / or cost impacts in terms of system changes required to provide ESMA with the modified ISIN, instead of the existing ISIN?

- Yes
 No
 Don't know / no opinion / not applicable

Please explain your reasoning:

Option 2 will require some workflow and system adjustments to adapt to the modified ISIN. However, BVI advises that these changes will be considerably less significant than the changes Option 1 would necessitate given that the OTC ISIN is used in EU transaction reports for market abuse monitoring purposes, and it will be used, in conjunction with the UPI, under EMIR from April 2024. Therefore, Option 1 (UPI plus additional fields) would require members to implement systems and workflows that cater for UPI plus additional attributes for MiFIR transparency requirements whilst also maintaining workflows and systems for the ISIN for other reporting requirements (both for OTC derivatives and other asset classes).

ESMA will also be required to make significant changes to its FIRDS system, which is set up for the ISIN, not currently for UPI or for additional attributes outside the identifier. Reporting reference data to FIRDS is a pre-requisite for the submission of other data types, including transparency data.

To minimise complexity, BVI advocates that Option 2, i.e the OTC ISIN for Interest Rate Derivatives with just one data field change (replacement of the Expiry Date with the Forward Starting Term), is also used in post-trade (EMIR) transaction reporting for derivatives and in transaction reporting for market abuse purposes under MiFIR so that the one ISIN is used to meet each requirement.

In sum we clearly see benefits in Option 2 which allows the buy-side to maintain the existing EMIR and MiFIR transaction reporting system without additional reference data cost. Also, the removal of the Expiry Date will result in a reduction in the number of ISINs issued for interest rate derivatives going forward, leading to additional operational savings. We would hope, however, that if the Expiry Date continues to be required in regulatory reporting by NCAs/ESMA, a solution is proposed which does not place the burden on reporting entities.

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Question 1.3 - Option 2 - Please indicate for which specific types of interest rate swaps the problem of daily ISIN arises that require this remedy:

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 for interest rate derivatives. 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.

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Question 1.4 - Option 2 - Are there other types of OTC derivatives, apart from the interest rate swaps identified in questions 1.2 and 1.3, for which the integration of the attribute 'Expiry Date' results in unnecessary daily ISINs and which require modification of their ISIN definition?

- Yes
- No
- Don't know / no opinion / not applicable

Question 2. Are there any other additional identifying reference data that are neither part of the UPI or the ISIN attributes that appear relevant to enhance the above stated aims of price transparency and price formation for in-scope OTC derivatives – interest rate derivatives and/or credit default swaps?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your reasoning regarding your answer to question 2:

BVI supports the attributes of 'Term of Contract' and 'Forward Starting Term' in the ISIN for transparency purposes as this follows the market convention seen in proprietary OTC derivatives identifiers. Market participants involved in pricing, valuation and trading generally refer to the smallest number of factors necessary when negotiating or agreeing a transaction to enable timely responses to enquiries, which includes the term(s). Market Data systems are also organised in a similar fashion to facilitate fast access to market pricing data.

BVI considers that Option 2, the modified ISIN, provides the most effective, least complex solution in terms of minimising the system and workflow changes required to meet market transparency needs.

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