



State Street Corporation

David Saul  
Senior Vice President  
Chief Scientist

1776 Heritage Drive  
North Quincy, MA 02171

Telephone: 617.985.2968  
dnsaul@statestreet.com

[www.statestreet.com](http://www.statestreet.com)

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Secretariat to the Financial Stability Board  
c/o Bank for International Settlements  
CH-4002  
Basel, Switzerland

Via email: [fsb@fsb.org](mailto:fsb@fsb.org)

**Re: Governance Arrangements for the Unique Product Identifier: Key Criteria and Functions**

Dear Sir or Madam:

State Street Corporation (“State Street”) appreciates the opportunity to comment on the Financial Stability Board’s (“FSB’s”) consultation document (“consultation document”) on the proposed governance arrangements for the unique product identifier (“UPI”).<sup>1</sup> Specifically, the consultation document proposes governance criteria and governance functions for the UPI System and asks what governance criteria should be fulfilled by any future governance structure and what governance functions any future governance structure should undertake.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management, data and analytics, and investment research and trading. With \$32.110 trillion in assets under custody and administration and \$2.673 trillion in assets under management as of September 30, 2017, State Street operates in more than 100 geographic markets worldwide. State Street is organized as a United States (“U.S.”) bank holding company, with operations conducted through several entities, primarily its wholly-insured depository institution subsidiary, State Street Bank and Trust Company.

As an initial matter, State Street supports the establishment of a governance structure for the UPI and the unique transaction identifier (“UTI”). As noted in our response to the FSB’s consultation document on proposed governance arrangements for the UTI<sup>2</sup>, we believe that the establishment of this governance structure is urgent as global standards for reference data are becoming increasingly critical to the safety, soundness and efficiency of the global financial markets. As discussed in more detail under the UPI Governance Framework section, State Street believes that one governing body should be

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<sup>1</sup> Financial Stability Board - “Governance arrangements for the unique product identifier (UPI); key criteria and functions - Consultation document” available at <http://www.fsb.org/wp-content/uploads/P031017.pdf>.

<sup>2</sup> State Street’s response to the Financial Stability Board - “Proposed governance arrangements for the unique transaction identifier (UTI)” available at <http://www.fsb.org/wp-content/uploads/State-Street-1.pdf>.

established for both the UPI and UTI, as the regulatory method for identifying a transaction and a product have similar principles and require the same core set of expertise.

Second, State Street believes that development of the governance structure for both the UPI and UTI should be a public-private collaboration. The public-private collaboration should consist of a broad set of national authorities, financial institutions and experts and should be explicit from the outset. The public-private collaboration governance group could work through initiatives such as a full meta-data model definition, vendor/service provider selection, workflow and extensibility. Additionally, they should ensure that the UPI is fit-for-purpose and the UPI process is transparent throughout implementation and ongoing maintenance.

Third, State Street strongly believes that custody banks, such as State Street, should be represented in the public-private collaboration, as all aspects of the financial services industry and lifecycle of an over-the-counter (“OTC”) derivative should be represented when developing the governance structure for identifiers. Custody banks not only play a critical role in the post-execution lifecycle of OTC derivatives, but we also provide services beyond just the custody of physical assets and cash, such as middle office outsourcing, fund accounting and regulatory reporting on behalf of clients. Additionally, custody banks are focused on the overall infrastructure of reference data and can provide a unique perspective in these discussions, as we have the unique ability to aggregate information from thousands of clients. Therefore, we can advocate on behalf of our clients as a whole by looking across our client base and provide insight, whereas a singular firm has a more limited perspective. Moreover, we have significant experience in reference data and already commit substantial resources to such important efforts.

Finally, as discussed in more detail below, State Street recommends:

- A similar governance framework for both the UPI and UTI which consists of certain underlying principles;
- Modifications and flexibility to certain key criteria, including public interest, lean, change only as needed, consultative change process, open access, cost and intellectual property;
- Fair allocation of fees among stakeholders through the cost-recovery model which is achievable through a fully transparent multi-tier access fee structure;
- The public-private collaboration determine the appropriate service provider model and take into consideration certain factors;
- Harmonization of the reference data libraries, including the UPI, with unrestricted access to this data; and
- An international standardization body for UPI reference data elements that exemplifies certain key characteristics.

### **UPI Governance Framework (Questions 12-13; 14-16, and 18-19)**

State Street supports the establishment of a governance framework for reference data identifiers, such as the UPI and UTI. We greatly appreciate the attention and focus of the FSB on this critical matter and believe that the governance structure implemented for the UPI should be the same as that established for the UTI, as both identifiers have very similar governance needs. Specifically, the regulatory method of identifying a product and transaction have similar principles and require the same core set of expertise. Creating separate governing bodies risks a lack of consistency and therefore, we believe separate governing bodies for the UTI and UPI are unnecessary.

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Additionally, State Street does not opine on which areas of governance or governance functions are appropriate for the UPI, but instead recommends that the final governance structure incorporate the following principles:

- (1) Simplicity;
- (2) Consistency;
- (3) Hierarchy structure with a global parent level in which local jurisdictional authorities report into;
- (4) Cross-section of regulators and stakeholders;
- (5) Diverse set of industry stakeholders; and
- (6) Ability to challenge.

A simple governance structure which oversees the UPI and UTI ensures a high level of consistency. Moreover, a hierarchy with a global top-level body which encourages and facilitates coordinated adoption of the UTI and UPI by local jurisdictions but allows local jurisdictions to maintain control and have enforcement powers is the ideal structure. The governance structure should include a cross-section of regulators and stakeholders which are diverse in nature. Finally, industry should have the ability to challenge the work of the governance group formed for the UPI and UTI. Specifically, there should be a mechanism to challenge potentially incorrect data and resolve any errors.

### **Key Criteria for the UPI Governance Arrangements (Questions 1-2)**

The consultation document articulates certain key criteria for the UPI governance arrangements including: public interest; lean; change only as needed; consultative change process; economic sustainability; open access; cost; intellectual property; conflicts of interest; fit for purpose; consideration of other governance frameworks; and operational viability and continuity of UPI service provider operations. Generally speaking, State Street supports the key criteria articulated in the consultation document, but as noted below in more detail, recommends certain modifications and flexibility.

#### *Public Interest*

The key criterion, public interest, states that “governance should be driven by the public and regulatory interest.” State Street agrees with this description of public interest and believes this can be accomplished through the public-private collaboration governance group described previously. Additionally, custody banks not only provide a unique perspective in the marketplace, but also play a critical role in the post-execution lifecycle of OTC derivatives, thus making it important to have a seat at the table during these discussions.

#### *Lean*

The consultation document states that the key criterion, lean, is that “the UPI Governance Arrangements should not be unnecessarily complex or costly.” Although State Street agrees with the lean key criterion, we caution against making governance decisions based solely on complexity or cost.

#### *Change Only as Needed*

The change only as needed key criterion states that “revisions to the UPI Governance Arrangements, the UPI Technical Guidance and UPI System should be managed on a need-only basis and consider benefits and costs of such revisions, to minimise impacts on various stakeholders.” State Street agrees with this key criterion, but similar to our previous discussion, it reinforces the necessity for a public-private collaboration, as industry should be allowed to make adaptations to the model that offer tangible

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benefits. For example, if industry required a more granular identifier at the contract level, although the upfront costs and governance could be significant, the benefit may outweigh the costs and the governance model should permit this type of innovation while ensuring that regulatory goals remain unaffected for the use of the UPI.

### *Consultative Change Process*

The consultative change process key criterion states that “changes to the UPI Governance Arrangements, the UPI Technical Guidance and UPI System (except for the day to day process of updating the data held in the UPI Reference Data Library) should allow for direct or indirect involvement of stakeholders and should be made after public consultation where appropriate.”

State Street supports this key criterion and would further add that the public-private collaboration advocated in this response is an important step forward in ensuring a robust consultative change process. It allows for all stakeholders to consider proposed changes and ensures that these changes are fit for purpose.

### *Open Access*

The consultation document describes how the key criterion, open access, is “access to, and use of, UPI Codes and the UPI Data Standards should be unrestricted. Authorities should have access to, and use of, the UPI Reference Data Library that is similarly unrestricted. Entities with reporting obligations and Trade Repositories should have access to, and use of the UPI Reference Data Library in a manner that is sufficient to at least allow them to associate a specific OTC derivative product to its UPI Code in a timely manner and facilitate the discharge of reporting obligations for OTC derivatives transactions.”

State Street strongly supports open access and believes that a free and open source utility for the creation, management and distribution (identifier and metadata) of a UPI and UTI is necessary. There are several benefits to open source including: flexibility of the open source model for different users to take advantage of the utility; transparency; security; quality; accountability; stability; auditability; reliability; speed of deployment; adherence to standards (inoperability); cost; and support. While maintaining standard interfaces, the flexibility and freedom of the open source models make it easier for various uses with different requirements to take advantage of the utility. Transparency provided by the broad base of open source providers, not only enhances security as the open source model exposes flaws more quickly, but also leads to higher quality and stability and promotes accountability, easier auditability and reliability. Also, open source models have historically been faster and smoother deployments since they are more closely linked to users and their requirements, thus reducing overall costs.

Therefore, State Street recommends that the open source definition be more prescriptive and state that the UPI is fully redistributable to key stakeholders (e.g. fund administrators) free of charge. Specifically, the language should read:

*Access to, and use of, UPI Codes and the UPI Data Standards should be unrestricted **and free of charge for all stakeholders and those in the lifecycle of a derivative contract.** ~~Authorities should have access to, and use of, the UPI Reference Data Library that is similarly unrestricted. Entities with reporting obligations and Trade Repositories should have access to, and use of the UPI Reference Data Library in a manner that is sufficient to at least allow them to associate a specific~~*

~~OTC derivative product to its UPI Code in a timely manner and facilitate the discharge of reporting obligations for OTC derivatives transactions.~~

We believe the adoption of this modification to the open access criterion will encourage use of the UPI and UPI data standard. Furthermore, when selecting a service provider and developing the framework, a more prescriptive definition of open access should be established. Specifically, the definition of open access should include how open access can be achieved, such as through open application programming interface access, website, and file delivery protocols on known standard technology methodologies. Open access should not be a check-the-box approach where a service provider states a user can download files from the website which is open access. Rather, the user must pay beyond the cost-recovery model for a more technical approach, because it is considered value-added.

## *Cost*

The consultation document states that for cost, “any fees charged by the UPI Service Provider(s) should be based on cost recovery and should be allocated among stakeholders fairly. For Authorities, use of the UPI System should be free.”

State Street agrees with the cost recovery model but believes there should be full transparency as to how costs are allocated to the various stakeholders. As discussed in more detail in the Cost Recovery Model section, we believe fair allocation of fees among stakeholders can be achieved through a multi-tier access fee structure.

## *Intellectual Property*

The key criterion, intellectual property states that “the UPI Data Standard should not be subject to any intellectual property restriction. Consistent with this, the use of any UPI Code should be free of licensing restrictions. As to the UPI Reference Data Library, intellectual property restrictions should be applied in a manner consistent with the rules applicable in a given jurisdiction.”

State Street agrees with this key criterion but believes that we should be cautious in its application. Specifically, intellectual property is important in relation to the underlying asset or index for an OTC derivative. We believe that the public-private collaboration should be tasked in determining the size and scope of the intellectual property matter and work jointly for an agreed upon approach that fits industry needs.

## **Cost Recovery Model (Questions 3-6)**

The consultation document discusses how fees charged by the UPI Service Provider(s) should be based on cost recovery and fairly allocated amongst stakeholders. State Street supports a cost recovery model but believes that the model should be a multi-tier access fee structure which is fully transparent.

Cost recovery should be a minimum standard of operation for any service provider and within the full authority and remit of the public-private collaboration to avoid claims of abuse of the cost recovery model. Transparency into the cost recovery model, therefore, would be a key attribute of the model. Specifically, the costs incurred by the service provider(s) less the fees they are charging should be fully transparent to stakeholders.

Additionally, cost recovery can differ among service providers, as some service providers already have the infrastructure in place while others may have to build such infrastructures. Therefore, the costs could be more substantial for those who need to build their infrastructures. State Street believes that start-up costs and operating costs for the governance of the UPI system should be permitted as part of cost recovery but under the oversight of the governing body.

State Street notes that unlike other reference data identifiers, the UPI is a classification structure where no single firm could claim ownership to a specific UPI. More UPIs may be generated by certain asset classes during the normal course of business than other asset classes. As such, costs should be distributed equitably among stakeholders. Cost should not be a barrier to entry for either reporting or business process utilization of the UPI framework.

Moreover, State Street believes that fair allocation of fees among stakeholders is achievable through a fully transparent multi-tier access fee structure. Specifically, the costs to the users of the UPI system should be proportional to their usage of the UPI system and include a flat fee based on some level of criteria that is fair to the core users of the platform. This approach should be balanced with the ability of stakeholders to game the system and wait for others to pay for creation of the UPI and then access this same information at a lower rate or for free.

### **UPI Service Providers (Questions 7, 10-11, 17 and 22-24)**

The consultation document provides potential models for the administration of the UPI System by service provider(s) including: one single UPI Service Provider across all asset classes; one single UPI Service Provider per asset class but multiple Service Providers across the UPI System; multiple UPI Service Providers within an asset class; or a number of different UPI Service Providers, each of which covers all asset classes. Additionally, it asks whether there should be a limited or finite number of UPI Service Providers which are identified or selected at the outset or whether selection criteria should be established.

State Street does not opine on which specific service provider model is appropriate, as we believe the decision should be made by the public-private collaboration, once established. However, the public-private collaboration should consider the following when determining the appropriate model:

- The model should not be overly burdensome to industry;
- Cost efficiency should be balanced with the risk of impeding innovation and ensuring expertise exists across asset classes;
- There should be the ability to aggregate information; and
- If multiple service providers are necessary, connections should be normalized to avoid undue costs of connecting to multiple service providers.

State Street notes that as the number of service providers increase, costs and oversight responsibilities will also increase. This is not to suggest that one service provider is appropriate, but the public-private collaboration should understand the implications of utilizing one versus many service providers. A single service provider could keep costs low, but such a model has a level of concentration risk. Also, the necessary in-house product level expertise may not exist at a single service provider. Additionally, if the public-private collaboration decides to use multiple service providers, it should consider the fact that

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many firms trade in multiple asset classes and therefore a normalized technical connectivity standard should be established to keep costs down at the firm level.

## **UPI Reference Data Library (Questions 8-9)**

The consultation document asks whether access or use of the UPI Reference Data Library, including data elements, should be unrestricted and whether the library should be subject to any intellectual property restrictions. State Street strongly supports harmonized reference data libraries for identifiers, including the UPI. A common reference data library provides a means to facilitate harmonization and data aggregation and once the foundation is established, can be evolved to include relationships between terms that define financial instruments. It will allow stakeholders to take disparate data sources and aggregate them for risk analysis and business process automation. It will not only facilitate better interoperability among stakeholders, but will improve the dependability of systems data; reduce redundancy; improve control; and facilitate more evidence-based decision-making in organizations.

Additionally, State Street supports unrestricted access to the data in the Reference Data Library as this is the only manner in which to ensure the benefits associated with a common reference data library. However, as noted previously, we believe the FSB should be cautious about intellectual property in relation to the underlying asset or index for the OTC derivative and the public-private collaboration should be tasked in determining an agreed upon approach forward that fits industry's needs.

## **Support International Standardization Body for UPI Reference Data Elements (Question 20)**

The consultation document asks whether there is a need for the UPI Reference Data Elements to be standardized by an International Standardization Body. State Street strongly supports an International Standardization Body, with the caveat that the International Standardization Body follows certain expectations.

Specifically, State Street believes that the International Standardization Body should be able to draft underlying technical specifications for the UPI data standard, which potentially helps facilitate standardized messaging for the UPI data standard, thus encouraging broad adoption and the enhancement of data quality. Additionally, the International Standardization Body must exemplify certain key characteristics including: (1) resiliency and agility; (2) efficiency; (3) transparency; (4) regulatory veto power; (5) implementation ability; (6) permit broad industry involvement in data standards work and maintenance; and (7) facilitate public input through a public consultation period.

The International Standardization Body must:

- Be sufficiently resilient, agile, and efficient to evaluate potential changes to UPI and UTI data standards and not impede upon the speed of innovation;
- Be completely transparent in its governance process, which is accomplished by publishing the governance criteria and providing certainty to market participants;
- Issue and evaluate its mission statement, which must include an implementation provision so standards are not only issued and evaluated, but the implementation of such standards is followed through by the same International Standardization Body;
- Permit its governance structure to have broad industry involvement through the facilitation of public input through the public consultation process; and

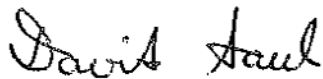
- Give regulators, who enforce the standards, the ability to veto decisions made by the International Standardization Body.

## Conclusion

In conclusion, State Street strongly supports the establishment of a similar governance framework for both the UPI and UTI, which consists of the following underlying principles: simplicity, consistency, hierarchy structure, cross-section of regulators and stakeholders, diverse set of industry stakeholders, and the ability to challenge. We believe a public-private collaboration should be established as the governing body with representation from all aspects of the financial services industry, including custody banks such as State Street. Moreover, we recommend: modifications and flexibility to the public interest, lean, change only as needed, consultative change process, open access, cost and intellectual property criteria; equitable allocation of fees among stakeholders in the cost-recovery model through a flat fee multi-tier access fee structure which is fully transparent; that the public-private collaboration determine the appropriate service provider model and take into consideration certain factors; harmonization of the reference data libraries for identifiers with unrestricted access to this data; and an international standardization body for UPI reference data elements with certain key characteristics.

Please feel free to contact me at [dnsaul@statestreet.com](mailto:dnsaul@statestreet.com) if you wish to discuss State Street's submission in further detail.

Sincerely,

A handwritten signature in black ink that reads "David Saul". The signature is written in a cursive, slightly slanted style.

David Saul