Ref: GYG/43/H30
May 28, 2018

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Comments on the second consultation document,
"Governance arrangements for the unique product identifier (UPI)",
issued by the Financial Stability Board

Dear Sirs/Madams:

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the second consultation document, "*Governance arrangements for the unique product identifier (UPI)"*, issued by the Financial Stability Board (FSB) on April 26, 2018. We welcome the work on harmonisation of data elements undertaken by international authorities including the FSB, in the situations where OTC derivatives transaction reports are filed based on different definitions and formats across countries and jurisdictions, and believe that practicable, stable and effective UPI Governance Arrangements should be implemented and established. We respectfully expect that the following comments will contribute to your further discussion.

[General comments]

1. Basic concept

UPI should be designed to ensure a simple and low-cost framework.

As suggested in our comments on the initial consultation document,[1] the existing frameworks established in the industry (e.g. ISDA Taxonomy) should be sufficiently respected and overly complicating the governance arrangements and current business practices should be avoided.

Specifically, the FSB should minimize required UPI data elements and enable UPI to accurately and simply reflect necessary information by excluding information that is covered by reporting data elements other than UPI, such as currencies and tenors. Complicating UPI

[1] https://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion291137.pdf

will increase the number of UPIs to be assigned, leading to undue increases in governance costs and users' burdens.

Overly complicated UPI may impose substantial burdens on large financial institutions, UPI Reference Data Library Operator, and UPI Service Provider(s), which will need to obtain or assign a large number of UPIs. Furthermore, it may also impose excessive costs on small- and medium-sized financial institutions with limited capacity even though they only engage in a small number of transactions for certain asset classes (e.g. interest rate). Consequently, it may be difficult to achieve regulatory goals, substantially undermining the UPI framework.

Therefore, in light of the limited usage of UPI for purposes beyond regulatory reporting, UPI should be designed in a way that ensures a simple and low-cost framework as much as possible.

2. Number of UPI Service Providers

If the existing ISDA Taxonomy is sufficiently respected and required UPI data elements are minimised, we consider that UPI Service Providers may not be necessarily designated in the first place.

If the FSB decides to designate a UPI Service Provider, **there should be only a single UPI Service Provider or up to a bare minimum number (two or so, at most)** based on our basic concept described in 1.

If there is a single UPI Service Provider, the UPI framework will be considerably simple, enabling counterparties to easily ensure uniqueness/consistency of the UPI. However, as noted in the consultation document, it might not be ensured that the single UPI Service Provider has expertise across all asset classes unless that UPI Service Provider is excellent,

On the other hand, if more than one UPI Service Provider coexists, users may bear those multiple UPI Service Providers' start-up costs and it may be necessary to standardize their infrastructures and operations. Furthermore, the existence of a number of UPI Service Providers will make coordination across them considerably difficult, resulting in a more complex framework, including the model of the Data Library. There are also some uncertainties from regulatory perspective. For example, it is uncertain whether uniqueness/consistency can be ensured in case each party applies for obtaining new UPI Code to different UPI Service Providers.

These costs and risks will increase in proportion to the increase in the number of UPI Service Providers. Therefore, it is likely that such risks and costs will exceed a limited benefit of cost reduction generated by competition among a number of UPI Service Providers.

Nonetheless, it is not our intention to completely deny competition. If competition can improve services (e.g. providing services in multiple languages) or minimise costs and fees/commissions, such benefits should be welcomed.

All things considered, in order to realise our basic concept of "simple and low-cost framework", the FSB should basically adopt the Single UPI Service Provider model and incorporate elements of the Competitive model to the extent necessary. The number of UPI Service Providers should be limited to one or up to the bare minimum (two or so, at most), under the condition that there will be a robust governance framework over costs and services and that the service will be provided 24-hours a day, reflecting each jurisdiction's circumstance.

[Our responses to questions]

1. Question 1:

Do you agree a public-private partnership model such as the one sketched above should be adopted for the UPI Governance Arrangements?

(Comments)

We agree.

(Rationale)

The proposed allocation of UPI governance functions realises a simple framework similar to the LEI framework, which we requested in our comment to the initial consultation document, and is expected to ensure the appropriate and efficient operation of the UPI System through the mechanism whereby oversight/advice is provided by both the public and private sectors.

2. Question 7:

If revenues for a year have exceeded or fallen short of anticipated costs for that year, should the UPI Service Provider have a mechanism for rebating or recovering the excess, either during that year or at a later time?

(Comments)

Under the condition that appropriate and robust governance will be put in place and the UPI Service Provider will undertake thorough efforts for cost reduction, we have no objection to the FSB's proposal to permit passing of the bare minimum amount to users according to such profits/losses situation. However, it would be also necessary to leave open for the possibility of prohibiting and restricting undue passing of UPI Service Providers' profits/losses to users to avoid disorderly passing of profits/losses by them. Furthermore, if it is determined to permit such passing of UPI Service Provider's costs to users, necessary arrangements to avoid a surprise to users should be taken in advance, such as fixing the timing of such passing

and making a pre-announcement.

(Rationale)

Since a UPI Service Provider is a private operator, its sustainability cannot be ensured unless there is a mechanism where losses, incurred by the UPI Service Provider but not caused by its fault, will be covered by users. On the other hand, given that UPI seeks the public interest, the UPI Service Provider should not overly pursue profits. Therefore, even if the UPI Service Provider succeeds in reducing costs through its own efforts, resulting profits should be returned to users to some extent.

In either case, changes in the amount to be defrayed by users will need to be effectively adjusted by Industry Representation Group (IRG) respecting the concept of the public-private governance structure referred to in Question 1.

3. Question 8:

Do you believe that a UPI Service Provider should be allowed to cross-subsidise the provision of UPI Services with revenues from other business lines, either with regard to start-up costs or on an ongoing basis? Why or why not?

(Comments)

We agree and believe that a UPI Service Provider should be allowed to use revenues from other business lines for start-up costs or costs to be incurred on an ongoing basis.

(Rationale)

<Start-up costs>

If a UPI Service Provider is not allowed to raise necessary funds for start-up costs from other business lines, it is assumed that users will pay such costs before UPI is introduced. However, it is difficult to determine allocation of such costs among the users based on each user's volume of UPI usage, since it is unclear beforehand. Therefore, a certain amount of costs would be uniformly allocated to all users regardless of the volume of usage, which is unfair.

In this view, a UPI Service Provider should raise funds temporarily from other business lines and then recover start-up costs subsequently in the course of its UPI business.

<Costs to be incurred on an ongoing basis>

In principle, costs to be incurred on an ongoing basis should be recovered in the course of the UPI business. However, a mechanism for promoting the UPI Service Provider's business sustainability should not be denied as much as possible given its nature as a market infrastructure. Cross-subsidies should be permitted because if services in combination with

other business lines are provided as a result of service innovation, a situation could arise where it is difficult to distinguish the UPI business exactly from other business lines.

Furthermore, it is possible that the UPI Service Provider will be unable to run its UPI business by solely relying on the revenue from the UPI business in the case of certain asset classes (see Question 19) because the number of UPIs to be assigned would be limited. Therefore, there is no reason to deny the possibility that the UPI Service Provider may provide UPI Services in a package with other services.

4. Question 9:

Should a UPI Service Provider be permitted to provide value-added products and services (i.e., products and services that incorporate UPI data but are not required by the UPI Technical Guidance)?

(Comments)

A UPI Service Provider could be permitted to provide value-added products and services so long as users are given an option to choose the sole use of services that are required by the UPI Technical Guidance.

(Rationale)

UPI Service Provider's provision of value-added, various services itself would increase the profitability of its business and will contribute to the sustainability of the UPI framework.

However, it should be ensured that users will not be forced to, for example, use the UPI Service in combination with other unnecessary services or at unreasonable prices. Specifically, potential measures may be considered: to require the UPI Service Provider to offer the simplest service (i.e. services that are required by the UPI Technical Guidance) and to ensure that users selecting the simplest service will not be treated unfavorably, and to establish governance that will appropriately work on the pricing of each service.

5. Question 18:

If you believe that the UPI can and should be used for purposes other than solely regulatory reporting, describe in detail and provide specific examples of any such additional purposes.

(Comments)

Currently, from users' perspective, we do not recognise any purposes other than regulatory reporting for the use of the UPI.

(Rationale)

The UPI, unlike the LEI, is not currently assumed to be used for purposes other than solely regulatory reporting. Parties to OTC derivatives transactions have been already

conducting risk management and other activities robustly in accordance with the existing frameworks. Considering these situations, we do not think the UPI can be used for additional useful purposes. Therefore, regulators are requested to sufficiently discuss how the UPI will be used in their monitoring and to draw a conclusion regarding the UPI's necessity and granularity that is reasonable for users.

Depending on the development of such discussions, it may be concluded that the UPI's intent and purposes could be sufficiently achieved with less burdens through alternative approaches instead of introducing a completely new framework as currently proposed. Specifically, it would be worthwhile to consider, as alternatives, transitioning the existing ISDA Taxonomy framework into the UPI System or keeping the UPI's granularity to the minimum necessary level. Lacking information could be supplemented by the CDE framework.

6. Question 19:

Considering the pros and cons of each of the above-mentioned models (Single UPI Service Provider model or Competitive model), what would in your view be the most suitable? Please provide detailed reasoning.

(Comments)

UPI should be designed to ensure a simple and low-cost framework and to that end, only a single UPI Service Provider or up to a bare minimum number (two or so, at most) should be designated. (The FSB should basically adopt the Single model and incorporate elements of the Competitive model to the extent necessary.)

(Rationale)

<From cost perspectives>

If multiple UPI Service Providers coexist, users will bear start-up costs of such multiple UPI Service Providers, and that leads to an increase in costs for users. In the case of products to which a UPI Code is not assigned, it is considered that both parties to the transaction will apply for a UPI Code. This will increase the uncertainty as to whether the UPI Code can be obtained without causing overlaps between the multiple UPI Service Providers and whether the regulatory reporting can be completed by the deadline. In order to avoid the risk of the same product being assigned different UPI Codes by different providers, it will be necessary to update the Data Library on a real-time basis. However, this raises a concern that it could be very costly to establish processes and procedures or to maintain the Data Library.

In addition, co-existence of multiple UPI Service Providers will only result in an increase in users' burdens unless infrastructures and operations are standardized.

From the above viewpoint, having multiple UPI Service Providers will increase costs for, for example, management and supervision across them and maintaining the Data Library. As a result, while competition has cost reduction effects, the Competitive model is likely to give rise to more costs than the Single UPI Service Provider model.

As for the UPI, while it is necessary to at least ensure that the service is provided for 24-hours a day and an operating framework reflects each jurisdiction's circumstance, given that the UPI has lower usability relative to the LEI, it would be preferable to have a single UPI Service Provider or up to a bare minimum number (two or so, at most) and design a framework as simply as possible, instead of promoting cost reduction and service innovation through the excessive Competitive model.

Further, taking into account negative effects of a single UPI Service Provider monopolizing the market (e.g. downward price rigidity), the FSB may ensure that adjustments by the IRG is made on costs and services and may take an approach to leave room for replacing UPI Service Providers through periodic bidding under the condition that no additional burden will be imposed on users' operation.

<From business perspectives>

The consultation document also assumes applying the Competitive model at one asset class level. However, with respect to interest rate products or FX products, for example, if the initial round of assignment of UPI Codes is completed at the time of implementation of the UPI scheme, subsequent assignment of new UPI Codes is expected to be limited. In such cases, possibly, there will not be enough incentive to innovate the UPI Code assignment business from profitability perspective, which means the dysfunction of the Competitive model.

Also from the perspectives of accuracy and efficiency, we consider that it is advisable that the UPI contains the bare minimum number of data elements, thereby decreasing the frequency of assigning new UPI Codes and establishing a simple framework under the Single UPI Service Provider model.

The above point also supports our view that the Competitive model may not function well and that the Single UPI Service Provider model is preferable from the perspective of minimising maintenance and management costs.

7. Question 20:

Do you believe that there should be a single UPI Reference Data Library if multiple UPI Service Providers coexist in the UPI System? Why or why not?

(Comments)

We believe that there should be a single UPI Reference Data Library.

(Rationale)

Lack of a single Data Library could give rise to overlaps and inconsistencies of UPI Codes between UPI Service Providers.

Even if a single Data Library exists, if multiple UPI Service Providers coexist, time lag upon data update is highly likely, which indicates that accurate and smooth acquisition of UPI Codes on a real-time basis will be difficult. Therefore, the single UPI Service Provider model will be preferable also from this viewpoint as it will not generate unnecessary costs arising from, among other things, establishment and maintenance of the Data Library.

8. Question 21:

What would be the value added in having competing UPI Service Providers if there was a single entity centrally managing the UPI Reference Data Library?

(Comments)

Having competing UPI Service Providers is assumed to realise, in theory, added value through reduction of prices and improvements in services. However, it is our concern that in reality, such benefits will be limited and may rather become a factor to increase overall costs.

(Rationale)

Where multiple UPI Service Providers coexist, competition is expected to possibly contribute to improvements in prices and services. However, considering the overall costs, there should be only a single UPI Service Provider or up to a bare minimum number (two or so, at most) as mentioned in our comments to Question 19.

If the FSB determines to allow co-existence of multiple UPI Service Providers, it is at least necessary to develop common infrastructures and then to make efforts to enable users to select and change a UPI Service Provider without incurring operational and other burdens. However, such actions will also be a cause to increase costs.

Sincerely,

Hideharu Iwamoto
Vice Chairman and Senior Executive Director