sifma

asset management group

May 24, 2018

Financial Stability Board
fsb@fsb.org

Re: Governance Arrangements for the Unique Product Identifier (UPI), Second Consultation Document

The Asset Management Group of the Securities Industry and Financial Markets Association ("SIFMA AMG" or "AMG")[1] appreciates the opportunity to provide the Financial Stability Board ("FSB") comments on the second consultation document regarding governance arrangements for the Unique Product Identifier ("UPI")[2].

As we have noted in our previous comments regarding the FSB's work on UPI, SIFMA AMG appreciates the FSB's coordination on international level to develop guidance for trade reporting, and strongly supports the establishment of global standards for data, and the regulatory goal of utilizing a globally-harmonised product identifier for derivatives. SIFMA AMG particularly appreciates the efforts to work across jurisdictions to ensure a consistent approach resulting in one solution to address regulators' need to have certain data aggregated into a single field.

We continue to urge regulators to take into consideration the work that has already been done to identify derivatives instruments under MiFID II. Ideally the derivatives markets and related regulatory oversight would benefit from a single framework to cover product identifiers and usages in all jurisdictions. A framework of a single identifier would be most beneficial for both the industry and regulatory oversight, as it would improve consistency and data quality, reduce the potential for errors and unnecessary cost and complexity in reporting technology, systems, connections and communication flow.

While we support a globally harmonized product identifier for derivatives, we believe that further explanation is required to understand the global framework for product identifiers, particularly the hierarchy between the ISIN and UPI, and the specific regulatory uses for both that could not be achieved with either identifier.

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[1] SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed $34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

[2] Governance arrangements for the unique product identifier (UPI), Second consultation document

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We have provided below our specific responses to the questions asked in the second consultation document regarding governance arrangements for the UPI.

Q1. Do you agree a public-private partnership model such as the one sketched above should be adopted for the UPI Governance Arrangements?

SIFMA AMG generally agrees that public-private partnership model described in the consultation is appropriate for the UPI governance arrangements. We particularly stress the importance of including subject matter experts from each industry participant type and stakeholder into the Industry Representation Group (IRG), including asset managers, investment banks, custodians, market data providers, and UPI service providers.

Q2. Do you believe any governance functions in Annex 4 should be performed by a different body? If so, which ones and why?

Q3. How should any Governance Arrangements for the UPI System be funded?

The Unique Identifiers Regulatory Oversight Committee (UIROC) costs should be funded from the budgets of the regulators/authorities that participate. The Industry Representation Group (IRG) would consist of volunteers from the stakeholders who should pay for their own expenses for meeting attendance, travel, etc.

Q4. Do you consider the Governance Arrangements described in section 3 above are appropriate and adapted to provide oversight on fees and cost recovery?

Q5. Please provide any specific suggestions to promote adherence to the cost and open access criteria, including suggestions relating to escalation procedures, including complaint handling bodies and processes.

Q6. If you believe that start-up costs should be fully recovered by a UPI Service Provider, how should they be allocated between earlier- and later-arriving subscribers? For example, over how many years should the start-up costs be amortised?

The UPI Service Provider(s) would ideally already have existing infrastructure and systems in place that could be leveraged to provide the UPI service thus minimizing start-up costs. AMG believes that the start-up costs should not be amortised for more than three years.

Q7. 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?

Q8. 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?

If the UPI Service Provider utilizes existing infrastructure, systems, technology and connections to build and provide the UPI service, it may be necessary to subsidise to some extent the provision of the UPI service from existing business lines for both start-up costs and on-going maintenance of the UPI services. The governance structure should play a critical role to ensure that there is transparency and clear, decisive governance rules that precede any agreement to allow cross-subsidization within the UPI service provider.

Q9. 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)?

AMG is does not oppose the ability of the UPI Service Provider to be permitted to provide value-added products and services incorporating the UPI data, however, the UPI service cost, or the value-added products or services, should not fundamentally increase market data pricing. Also, offering these products and services should not conflict with open access to UPI data. The UPI governance arrangements should provide clear guidance on what is permissible in connection with value-added products and services.

Q10. What is your evaluation of the risks of restrictive practices limiting open access, e.g. through the bundling of UPI Services with value-added services? How and by whom could such practices be prevented or restricted?

Open access to UPIs should not be restricted regardless whether UPI services are bundled with value-added services.

Q11. Should a UPI Service Provider that engages in other business activity be required to "ring fence" its UPI functions? If so, what sort of corporate, legal, and/or accounting mechanisms would be necessary to effect such an arrangement?

Q12. Should ownership of any intellectual property created by a UPI Service Provider be assigned to a third party in order to maintain and ensure continuation of open access in the event that the provider were to become insolvent or subject to administration or voluntarily withdraw? If so, how should that third party be structured?

The UPI data should be in public domain and openly accessible and easily portable to another service provider. However, it may be possible that a UPI service provider assign IP rights to process rather than data. That is, if the UPI service provider devises a unique method to leverage DLT, for instance, they should not be obligated to share that with the industry or the next service provider.

Q13. Should access to a vendor-proprietary identifier in the UPI Reference Data Library be limited to only those market participants who have a corresponding license agreement with the respective vendor? If so, how should that underlying asset or index be identified for non-licensees?

Q14. Do you believe that wherever possible elements within the Reference Data Library should use established International Data Standards?

Consistency and standardization of the data is key to ensure high quality of the data within the Reference Data Library, and the AMG strongly supports that the elements within the Reference Data Library use established International Data Standards.

Q15. Do you agree that, for similar reasons as were traversed in the UTI Consultation, the ISO is the most appropriate body to undertake the functions of an International Standardisation Body for the UPI?

Q16. Do you think it desirable that all elements in the UPI Reference Data Library be subject to ISO standards?

Q17. Do you agree with the FSB's preliminary conclusions about codelists and related topics in section 5.3 above?

Q18. If you believe that the UPI data can and should be used for purposes other than solely regulatory reporting, describe in detail and provide specific examples of any such additional purposes.

It might be possible for the derivatives industry to use UPI as a new way to specify products for derivatives trading and replace all the pieces of information currently shared between trade counter-parties that is contained in a UPI with the UPI code. However, this would require a new way of trading and communicating, and coordination or market participants and systems to integrate the information contained in a UPI. To increase the potential usefulness of the UPI for derivatives markets, UPI code should be issued prior to trade execution.

Q19. 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.

If there are multiple UPI Service Providers we caution that it is very important that they each stick to the specification and provide a consistent, standardized approach to ensure high data quality and normalization of UPI data across the system. The cost of managing and maintaining UPIs would potentially be lower if there were multiple providers utilizing existing infrastructure, systems and technology. If there were multiple providers per asset class it may be beneficial from business continuity standpoint and may increase innovation around the use of UPIs beyond regulatory purposes thus utilizing the implementation of UPIs for business purposes.

Q20. 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?

AMG strongly believes that a single UPI Reference Data Library is essential to ensure high data quality and consistency.

Q21. 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?

Q22. How could the applicable technical principles and governance criteria mentioned in section 6.1 be followed if there were multiple UPI Service Providers?

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Should you have any questions or wish to discuss these matters further, please do not hesitate to contact Laura Martin at 212-313-1176 or lmartin@sifma.org or Elisa Nuottajarvi at 212-313-1166 or enuottajarvi@sifma.org.

Respectfully submitted,

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