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May 25, 2018

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

Via email: fsb@fsb.org

Re: Governance Arrangements for the Unique Product Identifier - Second Consultation Document

Dear Sir/Madam:

State Street Corporation ("State Street") appreciates the opportunity to comment on the Financial Stability Board's ("FSB's") second consultation document on the proposed governance arrangements for the unique product identifier ("UPI").[1] State Street responded to the FSB's first consultation document related to the UPI governance framework[2] and we appreciate the FSB's thoughtful consideration of the industry's previous comments and its understanding of the importance of developing a sound governance framework. This second consultation document seeks further feedback on certain governance considerations for the UPI, which is a key reference data element in the reporting of over-the-counter ("OTC") derivative transactions. The UPI's primary purpose is to identify a specific product in a given OTC derivative transaction. The assignment of UPIs will permit regulators to aggregate OTC derivative transactions by product or by other reference data elements that comprise the product, including related underliers.

Headquartered in Boston, Massachusetts, State Street specializes in the provision of financial services to institutional investors. This includes investment servicing, investment management, data and analytics, and investment research and trading. With $33.284 trillion in assets under custody and administration and $2.729 trillion in assets under management, State Street operates in more than 100 geographic markets worldwide, including North America, Europe, the Middle East and Asia.[3] State Street is organized as a United States bank holding company, with operations conducted through several entities, primarily its wholly-insured depository institution subsidiary, State Street Bank and Trust Company.

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[1] Financial Stability Board - "Governance arrangements for the unique product identifier (UPI)- Second consultation document" available at *http://www.fsb.org/wp-content/uploads/P260418-1.pdf.*

[2] State Street Corporation's response to the 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/State-Street-2.pdf.*

[3] As of March 31, 2018.

State Street is strongly supportive of the efforts by global regulators, such as the FSB and the Committee on Payments and Infrastructures and the Board of the International Organization of Securities Commissions, to harmonize reference data elements, including the UPI and the unique transaction identifier ("UTI"), and to establish an appropriate governance structure. We believe that a strong governance framework is both important and urgent as reference data is becoming increasingly critical to the safety, soundness and efficiency of the global financial markets. Moreover, a strong governance structure for globally harmonized identifiers will lead to broad industry adoption facilitating the ability to aggregate data for risk analysis and business automation purposes.

As discussed in more detail below, State Street:

- Recommends one governance body for both the UPI and UTI;
- Supports a final governance framework with certain underlying principles;
- Supports a public-private collaboration, and recommends that the Industry Representation Group be comprised of all stakeholders, including service providers, such as custody banks;
- Recommends certain modifications to the governance functions listed in Annex 4;
- Supports a cost recovery model which is transparent, subject to periodic independent review, and has a tiered fee structure involving both a flat fee and usage component;
- Encourages the subsidization of start-up and operating costs using revenue from other business lines and value-added services;
- Supports an open source model, with intellectual property issues resolved by the public-private collaboration;
- Supports a single UPI Reference Data Library;
- Supports using an International Standardization Body with certain key characteristics;
- Recommends developing a process to maintain standards and code lists;
- Believes UPI data should be used for data beyond just regulatory reporting;
- Believes the public-private collaboration should choose the UPI Service Provider; and
- Believes that industry best practice dictates that UPIs should be issued at or before the time of execution.

<u>One Governance Body for UPI and UTI and Support Public-Private Collaboration (Questions 1 and 2)</u>

The second consultation document describes a public-private governance structure which allocates one or more governance functions to various entities or authorities. These include: a Unique Identifiers Regulatory Oversight Committee, an Industry Representation Group, UPI Service Provider(s), a single UPI Reference Data Library Operator and an International Standardization Body.

As an initial matter, State Street believes that only one governance framework should be established for both the UPI and UTI, as both identifiers have very similar governance needs. The regulatory methods to identify a product and a transaction have similar principles and require the same core set of expertise. Therefore, we believe that separate governing bodies for the UTI and UPI are unnecessary, as separate governing bodies may create inconsistency in the overall governance framework.

Second, as discussed in our response to the first consultation document, State Street believes that in the final framework, there must exist: (1) simplicity in the governance structure which oversees the UPI and UTI and one that ensures a high level of consistency; (2) a hierarchical structure led by a global top-level body which encourages and facilitates the coordinated adoption of the identifiers by local jurisdictions, but permits these local jurisdictions to maintain control and enforcement powers; (3) a diverse cross-section of regulators and industry stakeholders who have the ability to challenge the work of the governance group; and (4) a mechanism to challenge potentially incorrect data and resolve any errors.

Third, State Street believes that broad collaboration across stakeholders is required in any public-private collaboration and we view the FSB's proposed framework as a positive step forward in providing balanced input and oversight of the overall governance function. However, certain modifications are necessary for full stakeholder representation. Specifically, State Street recommends the inclusion of service providers, such as custody banks, in the Industry Representation Group which currently includes only "representatives of…. reporting entities, derivatives infrastructure providers, or market data providers." Custody banks play an important role in the lifecycle of an OTC derivatives transaction which extends beyond post-execution. This includes middle office outsourcing, fund accounting and regulatory reporting on behalf of clients. We are focused on the overall infrastructure of reference data and can provide a unique perspective as we have the ability to aggregate information across our client base. This unique ability to aggregate information from thousands of institutional investor clients provides us with important insight compared to individual firms with a more limited perspective. Aggregations at this custodial scale can provide insights into systemic risk not discoverable by a single entity. Additionally, we have significant experience in reference data and commit substantial resources to these initiatives.

With respect to membership in the Industry Representation Group, State Street believes there should be a clear commitment of time, term of service, and a method for periodic rotation of firms described at the outset to ensure full commitment to the governance function. This will reduce turnover within the function, promote continuity in membership without certain players dominating, and lead to better decision-making.

Finally, we believe modifications should be made to the governance functions listed in Annex 4. These include: an approval function for the Industry Representation Group; a mechanism to challenge and escalate during daily production and routine maintenance; a function to monitor compliance to the cost recovery model; and a function to process the entering and exiting of service provider(s). Furthermore, State Street believes that the Industry Representation Group must not only have the ability to provide input and review, but should also be able to approve changes. Notably, under F5.1.1 production and routine maintenance, the Industry Representation Group should have the ability to challenge and escalate issues. As such, F5.1.1 should read "Stakeholder input, review, and approval." Other modifications to Annex 4 include the addition of a governance function to monitor compliance to the cost recovery model and a function to process new UPI service providers entering the market and those providers exiting the market.

Cost Recovery Model (Questions 4, 6, 7, 8 and 9)

In the second consultation document, the FSB notes that a transparent cost recovery model subject to periodic independent review should be adopted. The ideal structure is a regime which includes public

disclosures of costs and revenues with appropriate independent review. Furthermore, the FSB agrees with respondents that fees can be tiered to reflect the degree of system usage by different types of users. Also, depending on the ultimate design of the UPI system, the FSB anticipates that UPI service provider costs will be disclosed to and reviewed by one or more levels of the UPI governance structure.

State Street supports the FSB's adoption of a multi-tiered model which reflects usage by different users as we believe this will fairly allocate costs across the system. We believe that costs to the users of the UPI system should be proportional to their usage and include a flat fee based on certain criterion which is fair to the core users of the platform. Cost recovery is a minimum standard of operation and must be within the full remit of the public-private collaboration to avoid claims of abuse. Additionally, transparency is a key attribute of the cost recovery model, meaning that costs incurred by the service provider(s) less the fees charged, should be fully transparent to stakeholders. However, the approach must be balanced to address those who may wish to game the system by waiting for others to pay for the creation of a UPI and then access the same information at a lower rate or for free. To address this eventuality, State Street recommends that the Unique Identifiers Regulatory Oversight Committee, with input from the Industry Representation Group, play a pivotal role in overseeing cost recovery.

The second consultation document also discusses how to fairly allocate start-up costs among stakeholders when in the early years significant expansion of resources may be necessary, but there may only be a small subscriber base upon which to draw fees. The two options put forth by the FSB to defray start-up costs are: (1) subsidize these costs with revenues generated by other business lines; or (2) provide value-added products or services deriving from the UPI data.

We agree that start-up and operating costs should be included in recovery costs, but under the full remit of the public-private collaboration. Cost recovery may differ between service providers as some may have infrastructures already in place while others may need to build such infrastructures from the ground up. As such, a mechanism should be used to monitor start-up costs versus normal UPI system usages to ensure costs are shared fairly. One option may involve a charge for new users of the system after a few years that would allow rebates to early adopters.

As for value-added services versus using revenue from other business lines, State Street encourages the use of both options, with revenues generated by other business lines being the primary source. Value-added services can be permitted so long as these products do not conflict with open access to metadata, or UPI access generally. For example, a service provider who wishes to gain technical access to the UPI and associated metadata for process efficiencies should not be charged differently under the guise of value-added services. Value-added services should be reviewed by the public-private collaboration to ensure they are aligned with the core principles of the UPI technical guidance and governance principles. Additionally any bundling of UPI services should not restrict access to core UPI capabilities.

Intellectual Property with Open Access (Questions 12 and 13)

The second consultation document affirms the FSB's acceptance of open source and open access principles as important aspects of the UPI governance model. However, questions arise relating to the mechanism to carry out open source. Specifically, within OTC derivatives trading there exist proprietary standards with intellectual property rights, especially with respect to underliers. The second

consultation describes two ways in which to address this issue: (1) seek permission from the respective vendor, either on a pre-party basis or as a general agreement with regulators and UPI service provider(s); or (2) limit access to vendor-proprietary identifiers in the Reference Data Library to those stakeholders who have a corresponding license agreement.

State Street acknowledges that intellectual property may exist within the UPI Reference Data Library. Nevertheless, the FSB should be cautious about such rights, especially in the context of the underlying asset or index, and no intellectual property should be generated by the UPI service provider(s). State Street strongly believes that the public-private collaboration must be tasked with making decisions regarding intellectual property so that the approach fits the industry's needs. We note, in this respect, that there already exist standard industry practices which the public-private collaboration can rely upon to protect these intellectual property rights. For example, GitHub is an open source repository which offers plans for both private and free accounts to host their open source projects.

Moreover, even while maintaining intellectual property rights, the data element for the underlying security or index must use a market standard that is unambiguous; must link to any identifier that is commonly used in the marketplace; and the construct of the data elements in the UPI must not diverge from common market practices. The use of arbitrary naming conventions that could lead to data integrity issues must be avoided since these can result in gaps in data, data translations and ultimately error in the construct of the UPI.

UPI Reference Data Library (Questions 14, 15, 16, 17 and 20)

The second consultation document discusses: requiring the use of International Organization for Standardization ("ISO") standards, code lists, conforming the UPI to appropriate international data standards on an ongoing basis and the adoption of a syntax neutral approach. The FSB asks whether elements within the UPI Reference Data Library should use established International Data Standards and whether the ISO is the most appropriate body to undertake the functions of the International Standardization Body for the UPI. Additionally, the FSB acknowledges that it sees significant merits in a single UPI Reference Data Library which serves as the authoritative repository for UPI reference data. It envisions a single framework which covers multiple product identifiers and usages, thereby ensuring a single point of access and a common approach to data quality management.

First, State Street strongly supports a single harmonized Reference Data Library for identifiers, including the UPI. This will ensure a foundation that can evolve to include relationships between terms that define financial instruments and provides a means to facilitate data harmonization. Stakeholders will have the ability to take disparate data sources and aggregate them for risk analysis and business process automation. This approach will also facilitate interoperability between stakeholders, improve the dependability of data, improve control, reduce redundancy and facilitate more evidence-based decision-making.

Second, we support the utilization of international data standards for the UPI but do not endorse any particular International Standardization Body. Instead, State Street believes that the chosen International Standardization Body must exemplify the following:

- Resiliency, agility, and efficiency when evaluating potential changes to UPI and UTI data standards and refrain from impeding upon the speed of innovation;
- Transparency in its governance process through the publication of its governance criteria;
- A mission statement, which includes an implementation provision so that standards are not only issued, but that the implementation of such standards is followed through by the same body;
- A public consultation process which facilitates broad industry involvement;
- Regulatory veto power so that regulators have the ability to reject decisions made by the International Standardization Body; and
- Timely standards updates to reflect market changes.

The International Standardization Body must adhere to certain expectations, including the ability to draft underlying technical specifications for the UPI. This will promote standardized messaging and encourage broad adoption and the enhancement of data quality.

Finally, the Industry Representation Group and the Unique Identifiers Regulatory Oversight Committee should be tasked with working with the chosen International Standardization Body to develop a process to maintain standards and code lists. This will ensure that standards and code lists are updated as appropriate to remain up-to-date with current market trading conventions. For example, ISO adopted ISDA's code list for ISO20022 with regards to the underlying interest rate indices for interest rate swaps. However, a formal process is lacking at the ISO to update and maintain the code list. Industry should be harmonizing to the best available code list for trading which should be maintained by the International Standardization Body. A related consideration is the pace at which changes can be made. If the Industry Representation Group or the Unique Identifiers Regulatory Oversight Committee desires a modification to a standard, the governing rules of the International Standardization Body must allow for the change to be done in a timely manner.

Utilizing UPIs beyond Regulatory Reporting (Question 18)

The FSB queries whether UPI data should be used for purposes other than regulatory reporting. State Street believes there are many pertinent uses beyond just regulatory reporting. The UPI and its standardized metadata can be used to provide process efficiencies. It reduces the need for firms to communicate data amongst themselves when the UPI and metadata can be sourced openly. Moreover, the extension of the UPI metadata can pave the way to the broad harmonization of derivative data. It can drive efficiencies in the end-to-end OTC derivative infrastructure through common utilization of data standards for both trading and regulatory reporting. Additionally, UPIs and related metadata can be leveraged by firms to conduct internal risk assessments and can be leveraged by service providers to provide insight into marketplace trends based on client data. It can also impact innovative technologies by providing a framework for core data management functions.

Decision Making Process for Service Providers (Questions 19, 21 and 22)

The second consultation document outlines the benefits and challenges associated with one versus many UPI service providers (*i.e.* the competitive model). The FSB seeks to use responses to the second

consultation document and the self-assessment questionnaire for potential UPI service providers in order to gauge complexities and cost. State Street does not have a specific view on whether the single service provider model or the competitive model is more appropriate. Instead, we strongly believe that this decision should be made by the public-private collaboration after it is established. When determining the appropriate model, the public-private collaboration should take into consideration the following factors:

- 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;
- The model should allow the ability to aggregate information; and
- If the competitive/multiple service providers model is chosen, then connections should be normalized to avoid undue costs of connecting to multiple service providers.

We cannot emphasize enough the importance of a public-private collaboration which includes all stakeholders, including custody banks who serve a critical role in the post-execution lifecycle of OTC derivatives. While we take no position on whether one or many service providers are the best path forward, we do believe there should exist a single point of entry, meaning there should be a function or process where a stakeholder can singly source a UPI.

Issue UPIs at or Before the Time of Execution

As a final matter, State Street would like to emphasize that industry best practice should include issuing UPIs at or before the time of trade execution. Determining at what point in the lifecycle of a trade the UPI is introduced is a critical factor in the construct of the entire UPI system.[4] The innovation of new technology has the potential to significantly impact end-to-end operations and for the UPI to gain traction as an identifier that offers benefits beyond just that of post-trade reporting. Quality data management requires that the most complete data in relation to a trade is known as early as possible, and therefore the infrastructure developed for the UPI should require that a UPI is known at the outset (*i.e.* the time of execution). To accomplish this, best practices should be established and clear rules of ownership must be applied in relation to who in a particular given deal has the responsibility to provide and/or request a UPI from the service provider(s).

Conclusion

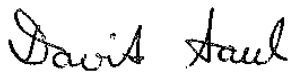
In conclusion, State Street supports the establishment of a similar governance structure for the UPI and UTI, a public-private collaboration, a single UPI Reference Data Library, an International Standardization Body and the utilization of UPIs beyond regulatory reporting. We recommend that the Industry Representation Group include all stakeholders, including custody banks; that intellectual property issues be resolved by the public-private collaboration; that a process to maintain standards and code lists be

[4] State Street notes that although for certain asset classes, once a UPI is generated it will not change frequently over time, other asset classes *(i.e.* equities, credits, and commodities) will change much more frequently given the broad number of underlying assets that can trade in the market place.

established; that certain modifications be made to the proposed governance functions and cost recovery model; and that UPIs should be issued at or before the time of execution.

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

Sincerely,



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