



November 17, 2017

Secretariat to the Financial Stability Board
Bank for International Settlements
Working Group on UTI and UPI Governance (GUUG)
Centralbahnplatz 2
CH-4002 Basel
Switzerland

RE: Response and Comments to Governance arrangements for the unique product identifier (UPI): key criteria and functions – Consultation document.

Introduction

NFA is a self-regulatory organization (SRO) for the US derivatives industry. In its capacity as an SRO, NFA provides regulatory oversight of a variety of OTC derivatives market participants (i.e. swap dealers, swap introducing brokers, pooled investment vehicles and investment managers using swaps). NFA does not operate any markets and is not a trade association. The development of a harmonized standard for OTC derivatives data will greatly contribute to the effectiveness and efficiency of its regulatory programs.

In addition to its responsibilities as an SRO, NFA provides a variety of regulatory services and programs to electronic trading platforms such as swap executions facilities (SEF) and designated contract markets (DCM) to ensure the fair treatment of customers and maintain orderly markets. In this capacity, NFA provides frontline trade practice and market surveillance to a number of SEFs and DCMs designated as such by the United States Commodity Futures Trading Commission (CFTC). These markets contract with NFA to perform regulatory services pursuant to a regulatory services agreement (RSA).

On a daily basis, these SEFs and DCMs send pre-trade, trade, product, and market participant information. This data is sent in a proprietary data format defined and maintained by NFA. In developing and maintaining this data format, NFA leveraged existing and emerging industry standards. NFA is committed to finding efficient solutions to regulatory challenges. As such, NFA intends to incorporate any globally accepted standard for OTC derivatives data into its systems. The goal is to continually improve the interoperability of its systems and to ensure efficient solutions for industry's regulatory reporting of derivatives transactions. It is with this experience and background that NFA is responding to the Consultative Document.

NFA has chosen to respond to the questions below. Please note this is not the entire list of 24 questions posed.

Questions and Responses

Q01. Do you consider any further criteria should be included in the above list?

A suggested additional criteria, potentially as an additional layer to the criteria ***Operational viability and continuity of UPI Service Provider operations***, is ***Scalability***.

Similar to the criteria of Open access, the spirit of and implementation to UPI Standards and Codes should be scalable. This will then better allow for the market to act freely while supporting it from a product aggregation perspective.

Q2. Are there ways in which any of the key criteria should be modified? If so, which ones and how?

The list of key criteria for UPI Governance Arrangements is conclusive. One of the criteria deserved to be expounded upon as follows:

Public interest – Governance should be driven by the public and regulatory interest.

It is important to note that private interests should be and are involved (stakeholders) in the governance approach taken for the UPI. Overall industry buy-in to the approach has to be achieved in order for full-scale implementation to be successful.

Q3. Should the UPI System operate on a cost recovery model? If not, what is the suggested alternative and how does it fit with other governance criteria?

Similar to the Global Legal Entity Identifier Foundation (GLEIF) a UPI System should operate on a cost recovery, or not-for-profit, basis. The motivation and spirit of the UPI System should center on providing exceptional global guidance of product related data elements for the purposes of data aggregation to facilitate better regulation of the markets.

Q7. Should there be different categories of users to describe entities that interact with the UPI Service Provider(s), utilise the UPI System, or access the UPI Reference Data Library in different ways, such as creation of a UPI Code versus leveraging an existing UPI Code, and at different frequencies? How should those categories be defined and should there be different associated costs based on the type and frequency of use of UPI Codes? How would different cost considerations apply to different aspects of the UPI System?

No, such a categorization seems to add a layer of complexity to an already complex subject matter. The focus of the UPI System should be on the technical guidance it provides, regardless of the end user type.

Q8. Should access to, and use of, the UPI Reference Data Library (which includes the Data Elements therein) be unrestricted? If not, what types of usage restrictions would be appropriate and to whom should they apply? What would be the consequences, including for harmonisation, of having usage restrictions on the UPI Reference Data Library?

Yes, the UPI Reference Data Library should be freely and generally available. Open access will facilitate a collaborative environment for receiving feedback and suggestions for a continually improving product identification system.

Q11. What kinds of business continuity arrangements would it be reasonable to expect from a UPI Service Provider?

The expectations of the business continuity arrangements and processes from a UPI Service Provider should mirror that of the stakeholders involved in the process. A UPI Service Provider should not unnecessarily bottleneck the business continuity of the market place in general.

Q14. Do you agree with the articulated areas of governance identified above?

Yes, the areas cover a wide and appropriate array of necessary governance objectives.

Q17. Could a UPI Service Provider also be expected to develop human readable aliases for UPI Codes to satisfy the needs of particular jurisdictions or other stakeholders? Why or why not?

NFA concurs with CPMI and IOSCO Technical Guidance on this matter in that the UPI Code should be semantically meaningless. While the Technical Guidance also goes on to state that human readable aliases may be mapped to each UPI Code, the expectation of standardizing the construct of aliases should not be with a UPI Service Provider.

Q20. Do you see a need for the UPI Reference Data Elements to be standardised by an International Standardisation Body and if so why? Are there aspects in which this would be impracticable? If so, please describe those aspects.

Yes, there is a need to standardize the UPI Reference Data Elements by an International Body. Without a standardized approach to the Reference Data Elements, subsequent data aggregation would be difficult, if not impossible. While there may be certain levels of granularity or types of data points in the UPI Reference Data that are impracticable to standardize on, such a determination can be made after thorough analysis. Once determined, those data elements that cannot be standardized should not be utilized for aggregation purposes.

Q22. What would be the respective costs and benefits of the different potential models to administer the UPI System specified above?

Having one single UPI Service Provider would centralize the costs and benefits of administering the UPI System as specified. The associated costs should not change based on the number of UPI Service Providers, therefore there should be efficiencies gained by having multiple entities involved.

The segregation of UPI Service Providers should not be overly complex, causing the cost efficiencies to be lost as a result. Therefore, one single UPI Service Provider per asset class, but multiple across the system, would be most effective.

Q24. Should one or a limited number of UPI Service Providers be selected at the outset? Should the UPI Governance Arrangements allow for additional UPI Service Provider(s) to be incorporated over time?

Yes, a limited number of UPI Service Providers should be selected at the onset of a UPI System. These first UPI Service Providers, as well as any other additional future Providers, should be subject to a pre-defined certification process for approval as a UPI Service Provider.

Closing

NFA's experience has been that dedicated and thoughtful consideration of input received by its Members and exchange clients has proven to be the best approach when taking on impactful initiatives. In order to set up a successful global mechanism for uniquely identifying OTC derivatives, the industry needs to have a collaborative approach to be properly realized. NFA appreciates the opportunity to comment on and provide feedback to the FSB's consultation paper on UPI Governance Arrangements.

If further feedback is requested, or if there are any questions about this response, please feel free to contact Todd Smith at (312)781-7498 or tsmith@nfa.futures.org.