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Subject: Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI) August 2018 Response form.

Sept. 27, 2018

We are pleased to respond to the Committee on Payments and Market Infrastructures (CPMI) and to the Board of the International Organization of Securities Commissions (IOSCOs) Consultative report on the Governance arrangements for critical OTC derivatives data elements (other than the UTI and UPI)

This consultation is a result of the G20 Leaders agreement in 2009 that all over-the-counter (OTC) derivatives contracts should be reported to trade repositories (TRs). This was part of the G20's commitment to reforming OTC derivatives markets with the aim of improving transparency, mitigating systemic risk and preventing market abuse. The Financial Stability Board was given the responsibility to oversee the establishment of a framework in which such reforms were to be implemented.

It was expected that aggregation of the data reported across TRs would help ensure that authorities can obtain a comprehensive view of the OTC derivatives market and its activity. The Financial Stability Board in its September 2014 "Feasibility study on approaches to aggregate OTC derivatives data" stated that such aggregation is feasible if "the work on standardization and harmonization of important data elements [is] completed".

It is notable that this CDE consultation is the first attempt to understand the breadth of the data standards activities going on under new regulations. A comprehensive set of data identification and data element standards is required to achieve the long sought means to efficiently aggregate data into meaningful and timely input for analyzing any single firm's enterprise risk and, ultimately, multiple firms' systemic risk.

Toward this end this consultation assessed proposed governance arrangements for CDEs against other OTC derivatives data elements (the UTI, the UPI and the LEI). Each exhibit similarities or differences on a number of key dimensions that have implications for the CDE governance arrangements. Noticeable in its absence is any reference or consideration of the GLEIF having proposed to be the governance body for the UPI and no reference to the LEI being the creator of uniqueness for the UTI.

Taken together with the LEI's parent relationship project and the consideration of the LEI in the Bank for International Settlements (BIS's) data aggregation initiative "Principles for effective risk data aggregation and risk reporting" (referred to as BCBS239) the LEI and the other standards initiatives collectively become critical to the ability to aggregate data. This suggests consideration of a greater role for the governance structure of the LEI initiative, in what the FSB has seen as possible benefits in a common governance structure.

The FSB, in its January, 2018 “Governance Arrangements for the UTI” stated that “The FSB believes there may be benefits to having a common governance framework, consisting of one or more international bodies, for the UTI and UPI. Therefore, the FSB considers that the final identification of the International Governance Body should take place contemporaneously with the FSB making its conclusions on the UPI Governance Arrangements.”

Under the guidance of the FSB a new government/private sector partnership was formed to govern, maintain and implement the Legal Entity Identifier (LEI) initiative. The Global Legal Entity Identifier Foundation (GLEIF), the operational and systems implementation component of this new arrangement, is operational and has been so since 2014. It is comprised of sixteen practitioner members drawn from financial market participants, data vendors and software companies, and academia. The Regulatory Oversight Committee, comprised of 70 regulatory members of the FSB, establishes and oversees operational policies for the LEI initiative and has been operational since 2012. It reports to the FSB and liaises with the GLEIF. The International Organization of Standards (ISO) maintains the LEI code standard (ISO 17442), both for the identifier and the reference data.

New technologies now available have attracted the attention of world regulators who are voicing interest in seeing themselves as nodes on a distributed ledger system storing financial transactions for regulatory reporting populated by financial firms. They are actively encouraging and funding pilot systems toward this objective. Regulators believe that new technologies can revolutionize the oversight of the financial industry and dramatically reduce costs of industry infrastructure and individual firm’s costs.

In support of new technologies, since January 2017 the CEO of GLEIF, Stephen Wolf has been the Co-convenor of the ISO Technical Committee 68 FinTech Technical Advisory Group (ISO TC 68 FinTech TAG). This group acts as an advisory sounding board to support and engage cooperatively with FinTechs and the broader financial services industry. The focus is on financial messaging, semantic technologies, mobile/digital wallets, digital currencies, security considerations, interoperability with existing bank-channels and Blockchain/distributed ledger technology.

While distributed ledger technology (DLT) is the buzz words of the day, these techniques of distributed networked ledgers have been available and in use for decades, most notably in use by market data vendors and as the backbone of the Internet and, in turn, the World Wide Web. The Blockchain, Bitcoin and other Cryptocurrencies are manifestations of distributed networks. The failure in current implementations of DLT networks needs to distinguish successes from those failures. DLTs’ permissioned by collaborating financial institutions and other trusted sources should be considered successes, distinguishable from the publicly available open networks such as is Bitcoin and other Cryptocurrencies.

What is truly different today is the global effort underway by the FSB and amongst EU, UK, US and other regulators to standardize data on a universal level, thus enabling the technology to be effective across multiple implementations. This then ensures the realization of implementation economies of scale and provides a long term view of a stabilized global data infrastructure from which legacy systems can be replaced or retooled over time.

Multiple trade repositories are but an example of legacy systems, borrowed from best practices of the past, not focused on the digital future that is already in our midst. Trade repositories is a physical manifestation of people, process and systems, locally distributed but connected operationally through interoperability, hopefully soon to be made easier by standardization. This is true also in the case of National Numbering Agencies that support local creation of securities numbers (ISINs) and Local Operating Units that support local creation of LEIs.

The federated organizational nature of all of the above intermediary financial market utilities make it even more compelling to focus on a single governance structure for the newly created UPI, UTI, LEI, and CDE. Even the long established ISIN should be considered for inclusion under this single governance structure. Its Association (ANNA) had to accommodate on a one-off-basis the creation of ISINs for OTC derivatives for the EU by stepping out of its long-standing governance structure of federated local operating entities to create a centralized and real-time creation process for OTC ISINs.

Toward this end the GLEIF has taken steps to formally bring the ISIN into the solution for data aggregation. This global initiative will map new and legacy ISINs to their corresponding LEIs. By linking the two standards together, firms will be able to aggregate the data required to gain a view of their firm-wide exposures, and Authorities will be able to view exposures within and across firms and trade repositories.

Thereafter, multiple physical entities can all be accommodated as computerized entry nodes on a permissioned distributed ledger. Authorities can also be nodes on the distributed ledger, observing these entries and eliminating paper reporting and transaction messaging, substituting automated storage for interoperability and associated data mapping and data transmission.

A central global point of governance over financial data will serve to integrate these disparate standards activities into a single dictionary of the industry's and regulators data standards. It would seem the governance structure and proven implementation resources of the global LEI initiative is suited for such a role in the industry's digital future.

Attached is our response (as above) in requested format incorporated completely into page 3 of the prescribed form. Please feel free to contact the principal author, Allan D. Grody, for any needed clarification or other matters.

Respectfully,



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