2016

FpML Response to SEC

Draft Security-Based Swap Data
Technical Specification

Table of Contents

1. Introduction

Financial products Markup Language ("FpML")[1], through the FpML Standards Committee, appreciates the opportunity to provide the Securities and Exchange Commission ("SEC") with comments and recommendations regarding the draft "Security-Based Swap Data Technical Specification"[2].

We welcome the recognition, by the Commission, of FpML as an international industry standard for representing and reporting derivatives data. We are strong proponents of standardization and strong believers that the use of industry standards such as FpML reduces costs, increases efficiencies and, in the case of reporting, leads to better data quality and facilitates data aggregation. We also note that the engagement with regulators in the US, Europe and Asia on various reporting requirements through the FpML Regulatory Reporting Working Group[3] (FpML RPTWG) has been very beneficial. We welcome the ongoing dialogue with the SEC.

This response complements the FpML response to the SEC's "Proposed Amendment Establishing the Form and Manner with which Security-Based Swap Data Repositories Must Make Security-Based Swap Data Available to the Commission"[4]. The FpML response to this consultation paper was submitted 22 February 2016 to rule-comments@sec.gov.

In response to the G-20 reporting requirements for OTC derivatives following the financial crisis, FpML has developed a reporting framework that can be leveraged for reporting in multiple jurisdictions. Today all US trade repositories either use FpML or are in the final stages of providing FpML support and FpML is used for reporting in several other jurisdictions. Interoperability with other regulations and jurisdictions continues to be a focus in FpML.

Specifically, as far as reporting to the SEC is concerned, the FpML reporting working group is analysing the data requirements outlined in the SEC regulation and will address any gaps, including the ones

---

[1] **About FpML**

FpML (Financial products Markup Language) is the freely licensed business information exchange standard for electronic dealing and processing of privately negotiated derivatives and structured products. It establishes the industry protocol for sharing information on, and dealing in, financial derivatives and structured products. It is based on XML (Extensible Markup Language), the standard meta-language for describing data shared between applications. The standard is developed under the auspices of ISDA, using the ISDA derivatives documentation as the basis. As a true open standard, the standards work is available to all at no cost and open to contribution from all. The standard evolution and development is overseen and managed by the FpML Standards Committee, following W3C rules of operations guidelines. The Standards Committee has representatives from dealers, buy side, clearing houses, large infrastructures, vendors, Investment managers and custodians. To find additional information on FpML, visit www.fpml.org.

[2] The draft specification is publicly available at: http://www.sec.gov/files/SBS_Data_Technical_Specification-2015-12-11.pdf.

[3] The meeting materials and minutes of the various FpML working groups, including the Reporting Working Group are publicly available at: www.fpml.org in the working group section at http://www.fpml.org/mg_groups/fpml-rptwg/

[4] The consultation paper is publicly available at: https://www.sec.gov/rules/proposed/2015/34-76624.pdf

outlined in the Consultation, in version 5.9 of the standard, the final version ("Recommendation") of which is expected to be published in the second quarter of 2016. FpML 5.9 Third Working Draft[5] was published February 11, 2016. More information can be found in the FpML roadmap[6].

2. FpML Feedback

FpML schema extension

For requirements that cannot be included into FpML in a timely fashion, the use of extension schemas as SEC proposes is the right mechanism and extension are an integral part of the FpML architecture. However, we would like to stress that timely participation in the standards development process to avoid extensions where possible is the preferred way and also allows to streamline the communication to all prospective users of the changes. When extensions are used we highly encourage bringing these extensions back to the standards process for discussion and inclusion in the next version; this avoids the creation of "dialects" down the road. For example, we believe that most of the SEC SBSR fields listed as missing from FpML in the consultation paper can already be accommodated within FpML, and if they cannot be we will need to address this in order for firms to address their data submission requirements under SBSR. For this reason, in an ideal world no SEC extensions will be needed to FpML, because all of SEC's requirements will be addressed already, as a result of the flexible standards development process.

We recommend that SEC staff participate in the FpML Reporting Working Group (RPTWG) during the development of the FpML-based SDR reporting feeds. This will provide a venue for clarification of detailed representation questions such as those raised in our response to the Consultation Paper. In addition, this will enable SEC staff to propose extensions to the schema to support additional needs not met currently. Finally, it will give the SEC insight into how FpML is developing for regulatory reporting. This last point includes new message formats that FpML is prototyping based on lessons learned from approximately five years of experience with supporting regulatory reporting mandates across the world. These are discussed further in the response to the consultation paper.

Introduction of new messages

New messages are introduced in the extension schema[7]:
- primaryTradeInformationReport based on PublicExecutionReport
- secondaryTradeInformationReport based on NonpublicExecutionReport

These are introduced without any extension to the base FpML types. If these messages are used, they would need to be accompanied by the SEC extension.

We recommend that the SEC's extension schemas not define new message names unless there is a compelling reason, which might include the addition of SEC-specific data fields to the top-level message. Defining new message names requires that documents to be sent to the SEC must be generated using the SEC-specific schema. When using standard FpML names, on the other hand, any FpML document will work as long as it also meets the constraints in the SEC schema. The restriction could be implemented,

---

for instance, by generating a standard FpML message and then applying XSLT transformations to round timestamps to the nearest second, remove omitted elements, etc. This increases the options for document generation and simplifies the document generation process. If the SEC wishes to constrain/restrict the existing FpML messages, this can be done without developing a new message name.

Use of XML schema 1.0

We support the Commission's decision to use XML schema 1.0, as this version remains much more widely supported than XML schema 1.1, and we see no compelling need for any schema 1.1 features. We invite the SEC staff to participate in the FpML Architecture Working Group if they have any technical concerns or questions related to how FpML uses XML schema, or how their extension schemas should be designed.

We note that the extension schemas proposed to date by the SEC focus on data type validation through the use of restrictions than actual extensions. We believe that this type of restriction schema is a legitimate mechanism for defining data validation rules, though we caution that these types of schemas (using redefine and restriction) can be problematic for XML binding frameworks, which is why FpML does not use these constructs in its own schema. This may or may not pose a problem for SDRs using the SEC extensions, depending on the technology choices they make.

Comments on sec-sbsr-transparency-5-9-2.xsd

Timestamps: the SEC should provide rules for eliminating fractions of a second (rounding or truncation).

For types where the SEC redefines or constrains the coding scheme URI (e.g. ExecutionVenueType) we note that doing this has no effect on the valid instance values of the field, only on values of the coding scheme URI. The SEC still needs to validate that the provided values match the coding scheme. More specifically, the coding scheme URI is primarily a documentation field, explaining the intended format of the field, than a strict validation rule. It is also useful for distinguishing between different data formats when there are multiple instances of the same element in a given document.

It is unclear how the 2 party elements of type "Dealer" would be used in the SEC's constrained schema. Transparency view does not allow party references in the products themselves, and in the SEC's extension schema it appears that most features that might reference "party" elements, such as relatedParty references, have been prohibited. Is this intended for the onBehalfOf party reference? If so, why are 2 parties required? An example message showing what was intended would be helpful. We note that in Transparency view, the party elements are retained to allow them to be used for related parties, such as execution facilities, clearing houses, etc., or as a base for party-specific trade identifiers (e.g. as issued by a SEF, etc.) but not specifically for specifying the counterparties to a trade, which are expected to by anonymous.

New message name: primaryTradeInformationReport. See comments above.

Comments on sec-sbsr-recordkeeping-5-9-2.xsd

Similar comments as for the transparency view schema apply for:

- constraining or redefining the coding scheme URI
- constraining timestamps not to have fractions of a second.

We hope that you will find these comments and suggestions useful, and we are available if you would like to discuss these in further detail.

Karel Engelen
Senior Director
International Swaps and Derivatives Association
kengelen@isda.org