FpML Response to ESMA
Draft technical standards on access to
data and aggregation and comparison of
data across TR under Article 81 of EMIR
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1. Introduction

Financial products Markup Language (“FpML”)\(^1\), through the FpML Standards Committee, appreciates the opportunity to provide the European Securities and Markets Authority (“ESMA”) with comments and recommendations in response to the Consultation Paper on draft technical standards on access to data and aggregation and comparison of data across TR under article 81 of EMIR\(^2\) (the “Consultation”).

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. 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.

Through the FpML regulatory reporting working group\(^3\), we analyse reporting requirements in different jurisdictions and continue to enhance the reporting framework to provide global consistency where possible while taking into account specific regulatory requirements. As part of the analysis we publish a global regulatory reporting mapping spreadsheet\(^4\) comparing FpML coverage to the reporting requirements in various jurisdictions. Today FpML is used for regulatory reporting by reporting parties and trade repositories in multiple jurisdictions globally. Annex 1 contains an overview of the usage by trade repositories.

The FpML standard can be used in multiple ways to further the goals of standardization and improve data quality. Besides the use of the XML schemas, FpML provides a large set of scheme values or reference data that can be leveraged. These scheme values can refer to ISO standards (e.g. currency codes), industry standards (e.g. floating rate option representation) and regulatory standard values (e.g.

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\(^1\) 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.


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

\(^4\) Global regulatory spreadsheet: http://www.fpml.org/docs/FpML-global-regulatory-reporting-mapping-draft.xlsx
CFTC commodity scheme values [http://www.fpml.org/coding-scheme/commodity-reference-price-2-0.xml](http://www.fpml.org/coding-scheme/commodity-reference-price-2-0.xml). More information on schemes can be found at [http://www.fpml.org/spec/coding-scheme/](http://www.fpml.org/spec/coding-scheme/). In addition, FpML provides a large set of validation rules that facilitate the enforcement of “business logic” i.e., restrictions that are not easily expressed by XML schema. An example is a check to verify that the start date of a contract is before the end date. While an integral part of the FpML standard, the validation rules can be used with other syntaxes as well.

ESMA is looking to mandate the use of messages to be developed following the ISO 20022 methodology. We regret the choice by ESMA to develop a new set of messages, rather than leverage and improve the reporting framework currently used by many market participants and infrastructures. While we acknowledge the data quality issues, in large part these are not caused by the actual messages used for reporting, but rather by an inconsistent enforcement of the content of these messages. There is no current ISO 20022 data format suitable for the requirements under this consultation paper, so a new format will be required. Developing a new set of messages and enforcing the usage by all market participants has a serious cost impact for the industry. Because there is no existing experience in using ISO 20022 for derivatives trade reporting, there is no benefit in terms of previously developed skills, capabilities, and technologies in using ISO 20022 for this purpose. We are surprised to read, for instance, in paragraph 27 and 28, that a not yet developed ISO data format is viewed by ESMA as more suitable for transaction reporting than FpML, which is standardized, open source, subject to a sound governance framework, typically deployed without customization, and which is used widely around the world for derivatives transaction data reporting. While we understand ESMA’s primary responsibility relates to reporting in Europe, a new set of messages risk bringing us further away from global harmonization.

### 2. FpML Responses

This section provides feedback on the questions raised throughout the consultation.

**Q1: Do you foresee any technical issues with the establishment of secure FTP connections between trade repositories and authorities? What are the cost implications of the establishment of secure FTP connections? What other practical difficulties, if any, do you foresee? Please elaborate.**

As a transport-neutral data format standards organization, FpML has no strong opinion on which transports to use. Members of the FpML organization have found SFTP to be cost-effective and straightforward to set up, when done appropriately, for periodic (batch) data transfer. However, FpML recommends that ESMA provide guidelines on appropriate security mechanisms, such as the use of certificate-based authentication, to ensure adequate protection of confidential data. FpML’s Transport Guidelines document[^5](http://www.fpml.org/docs/FpML-transport-guidelines.pdf), while focused on FpML, provides guidelines on how SFTP security can be set up.

Q2: Do you foresee any technical issues with the above mentioned data exchange supported by ISO 20022 methodology? Do you foresee any cost implication from the establishment of standardised data exchange? Do you foresee any additional benefit from establishing data exchange supported by ISO 20022 methodology? Please elaborate.

We agree that a standardized data format based on XML would be useful to simplify data aggregation across trade repositories. As mentioned in the introduction, we do not believe that achieving this requires a new set of messages and we believe it would be quicker and more cost effective to work with an existing standard such as FpML in this area of derivatives trade reporting.

The paragraphs preceding Q2 assert with little evidence that adherence to the ISO process will resolve data standardization issues across organizations. In our experience, the biggest obstacle to communication between parties is lack of consistent understanding and knowledge of key business concepts across different stakeholders, not the identification of basic data formats. For example, defining a field “notional1” with a specific precision does not suffice if there is no further definition of how to deal with events such as the variation of the notional during the life of the transaction or notional changes as a result of a post-trade event or, how to populate the field when the size of the trade is not expressed in currency units and must be converted to currency units prior to reporting. Creating a data format in isolation from the key players in the industry is not likely to improve this situation. Even if there is a single standard, lack of consistent understanding and definitions of key fields and concepts is likely to cause aggregation issues. Obtaining this understanding without broad consultations within the industry is unlikely to be effective.

In order to allow ISO to leverage the industry expertise around derivatives and in first instance derivatives reporting we have proposed to the ISO 20022 Registration Management Group, the creation of a dedicated evaluation group for derivatives. Such a dedicated group will allow to bring the right industry experts to the table, leveraging existing experience in the area of derivatives reporting.

Without adequate input, the new data formats may have as many deficiencies as existing data reports. In addition, we are concerned that an ISO solution driven solely by ESMA requirements may not achieve the goals of the CPMI-IOSCO international data standardization efforts.
Q3: Do you foresee any technical issues with the establishment of recurrent and predefined queries? If so, how would authorities be able to compare and aggregate data across TRs in absence of standardised queries and how would they be able to make use of TR data for the exercise of their duties if they are not able to properly and immediately access TR data? What are the cost implications stemming from the establishment of the proposed predefined and ad-hoc queries? Do you agree with the proposed minimum set of queries? What would be the maximum number of recurrent queries which a single authority could submit in a given day? What would be the maximum number of ad-hoc queries which a single authority could submit in a given day? Please elaborate.

FpML has no opinion on the technical issues of establishing predefined queries. FpML believes that specifying consistent data access requirements will be beneficial for standardizing and aggregating data across TRs.

Q4: Do you agree with the proposed frequency to provide data to the relevant authorities? Please elaborate.

FpML has no opinion on the precise frequency of data access. FpML believes that specifying consistent data access requirements will be beneficial for standardizing and aggregating data across TRs.

Q5: Do you agree with this proposal? [Use of electronic signature and data encryption protocols to secure data delivered by the TRs] Please elaborate.

We believe that, as long as files are delivered via properly-secured SFTP (using digital certificates), the additional value of signing and encrypting data files is minimal. However, there may be benefit to compressing the files for size reasons. If SFTP is implemented without certificate-based security, there is value in signing and encrypting the files.

Q6: Do you agree with this proposal? [Providing feedback within 15 minutes in the case of faulty data queries]. Please elaborate.

FpML has no opinion on the timelines of feedback on faulty queries. FpML believes that regulators should be notified rapidly of access failures or authorization failures involving their credentials, because it may be an indication of illegal activity or attempts to break security. We understand that there may be value to regulators in having feedback when a query cannot be answered in a timely fashion, for instance due to query size or complexity, but that this can sometimes be difficult to assess in advance.
Q7: Do you foresee any technical issues with the implementation of xml template in accordance with the ISO 20022 methodology? Do you foresee any technical issues in translating data received in non xml format to an xml template in accordance with ISO 20022 methodology? Do you foresee any benefit from establishing standardised xml template in accordance with ISO 20022 methodology for the aggregation and comparison of data? Would any other data standard fulfil to the same extent the requirements set out in paragraph 48 with respect to the aggregation and comparison of data by authorities? Please elaborate.

There is currently no existing data format under ISO 20022 for these reports. Developing one will take time.

We are concerned that the ISO 20022 methodology and review and approval process might take more time than anticipated, and this in turn may affect the timeliness of ESMA’s ability to adopt and enhance the new ISO 20022 reporting format. This will also impact market participants who are required to use the format. They need sufficient time to implement a completely new set of messages.

We do see benefit in developing standardized XML templates but are not convinced that doing this following the ISO 20022 methodology will result in a superior solution nor will it be cost effective. We believe that there are other data standards that could perform this role, such as FpML, which is being proposed by the US Securities and Exchange Commission for a similar purpose.

While there are many users of ISO 20022 in the financial industry, e.g. in the area of payments, to our knowledge ISO 20022 is not used by any organization for OTC derivatives trade flow or reporting. This is in contrast to FpML, which is very widely and heavily used by organizations across the derivatives industry (including dealers, execution facilities, confirmation services, custodians, clearinghouses, and trade repositories) for purposes including internal STP, communications between platforms/utilities and their clients, for regulatory reporting. For this reason, adoption of ISO 20022 in this space will create considerable new costs in terms of learning curves, data conversions, exception handling, and tools and technology development.
3. Conclusion
The FpML standard is widely used for reporting in multiple jurisdictions and we encourage ESMA to consider leveraging the regulatory reporting framework built into the FpML standard where possible. FpML version 5.9 in particular is well equipped to represent reportable data fields required under EMIR with little or no change.

We hope that you will find our comments and suggestions useful. Please contact me if you have any questions or if you would like to discuss our response in further detail.

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Annex 1: Overview of FpML use by various Trade Repositories

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