

14 April 2004

**CESR Technical Advice on Implementing Measures of the Proposed
Financial Instruments Markets Directive (ISD 2): Transaction Reporting, Cooperation and
Exchange of Information Between Competent Authorities**

Consultative Concept Paper

March 2004

Comments of UBS Investment Bank

UBS Investment Bank (UBS-IB) welcomes the opportunity to comment on the Consultative Concept Paper (Consultative Paper), examining transaction reporting, cooperation and exchange of information between competent authorities, published by The Committee of European Securities Regulators (CESR) on 04 March 2004.

UBS-IB is the investment banking arm of UBS AG, employing 16,000 people in offices located throughout 30 countries. UBS AG is a global, integrated investment services firm and bank, domiciled in Switzerland, with offices in over 50 countries worldwide. UBS AG's business is managed through four main business groups and its Corporate Centre.

As stated by the Expert Group on Cooperation and Enforcement, much of the CESR work on its Article 25 mandate must be done "from scratch". Far from operating as a detriment, UBS-IB is of the opinion that this *tabula rasa* offers a rare opportunity to rationalise and standardise transaction reporting requirements within both individual Member States and the Single Market more generally.

UBS-IB is particularly interested in evolving more uniform, and hence more cost-efficient, transaction reporting mechanisms and requirements. Hence, this response will be limited to paragraphs 2.2 (Methods and arrangements for reporting financial transactions) and 2.4 (The minimum content and the common standard or format of the reports to facilitate its exchange between competent authorities).

2.2. Methods and arrangements for reporting financial transactions

You have asked for comments on the methods and arrangements of transaction monitoring systems sufficient to satisfy the obligation of investment firms (or one of its designated proxies), to report financial transactions. Each of the questions relating to this paragraph will be considered in turn.

In Question 1, we are asked to comment on your proposal of establishing an "inventory" of minimum conditions to be applied to trade matching and reporting systems, both in respect of an investment firm and any of its designated proxies (e.g., regulated markets, MTF's or trade-matching and reporting systems, etc.). We strongly endorse developing and applying the same criteria to transaction reporting systems across the Member States. This will negate the need for firms to tailor their reporting systems to satisfy the different requirements of the various competent authorities.

Going one step further, we advocate as a long-term goal moving towards reporting to a "central hub" which would in turn, disseminate transaction reports to the relevant competent authorities. The contents of the transaction reports would be based upon a standard matrix, but the inclusion of information in particular fields would depend upon the type of traded product. For example, fields that would contain information specific to cash equities would be blank for OTC products.

This model, which converges both systems and reporting standardisation, would create immeasurable efficiency gains. Depending upon the product, UBS-IB currently utilises up to four different reporting mediums for standard transaction reporting from its clearing and settlement systems (CREST, TRAX, OMGEO and DRS, the Financial Service Authority's own reporting medium). The creation of a central hub would, therefore, eliminate the need for investment firms to maintain separate interfaces linked to their operating systems. However, the impact of this model on settlement matching would also have to be considered.

Question 2 of this paragraph asks what set of criteria such an inventory should contain. We believe the inventory should include, as stated, data security and system reliability but also be efficient and cost-effective in meeting the objectives stated in paragraph 2.1 of the Consultative Paper.

Finally, Question 3 asks whether CESR should examine any other issues in respect of methods and arrangements for reporting financial transactions. We believe that the issues currently under consideration by CESR in relation to transaction reporting are comprehensive.

2.4. The minimum content and the common standard or format of the reports to facilitate its exchange between competent authorities

You have also asked for comments on development of common standard for transaction reports. This harmonisation will simplify exchange of such transaction reports between Member State competent authorities. Indicative elements of a standard report for CESR to consider pursuant to its mandate include:

- content of information on quantity for each type of financial instrument (e.g., volume of instruments, monetary amount, etc.)
- content of information on prices for each financial instrument
- methods for reporting time / date of each transaction
- means for identifying investment firms concerned
- means for identifying instruments bought / sold (security codes)

Other supervisory considerations might include identification of market in which transaction is executed, whether the transaction is expected as agent or as principal, etc.

CESR proposes a two-step approach to teasing out common elements in transaction reports. First, CESR intends to identify minimum reporting requirements requested by competent authorities from investment firms (or those parties reporting on behalf of such investment firms), while distinguishing between financial instruments as necessary. Second, CESR will extract from its general list those transaction reporting fields most essential for purposes of exchanging such reports between competent authorities, and in turn define a common standard / format for such fields.

Question 8 asks to what extent we agree with this two-step process of creating a common standard / format for transaction reports. We fully support this approach to standardising transaction reporting.

With respect to the types of information that might usefully be included in transaction reports other than those already contained within Question 9, we agree with the London Stock Exchange proposal of limiting the content of transaction reports to a maximum of eight mandatory fields. In addition, we propose inclusion of the following additional fields to be completed as dictated by the type of traded product:

- "Internal Trade Ref" (for regulator inquiries)
- "On / Off Exchange" for OTC
- "Future / Option" for Exchange Traded Derivatives transaction reporting (which field would be left blank for reporting cash equities, as mentioned in Q1 above)

In Question 10 we are asked to consider whether there are any circumstances in which the content of transaction reports should vary based on the entity reporting the transaction. We are of the opinion that, regardless of whether an investment firm or an obliged reporting party reports the transaction, the standard / format of the report should remain the same. We can think of no scenarios in which different treatment of reporting parties would be necessitated, especially in view of the stated objective of standardisation.

We hope this provides some useful feedback to the Consultative Paper.

Yours sincerely,

UBS AG



Colin Parry
Managing Director