SWEDISH
SECURITIES DEALERS
ASSOCIATION

The Committee of European Securities Regulators

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SWEDISH SECURITIES DEALERS ASSOCIATION RESPONSE TO CESR´S CALL FOR EVIDENCE ON THE TECHNICAL STANDARDS TO IDENTIFY AND CLASSIFY OTC DERIVATIVE INSTRUMENTS FOR TREM

The Swedish Securities Dealers Association, SSDA, welcomes the opportunity to respond to the CALL FOR EVIDENCE OF THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS (CESR) ON THE TECHNICAL STANDARDS TO IDENTIFY AND CLASSIFY OVER THE COUNTER (OTC) DERIVATIVE INSTRUMENTS FOR CESR'S TRANSACTION REPORTING EXCHANGE MECHANISM (TREM). The views in this document are a consolidation of views expressed by the members of the Association which are banks and investment firms active on the Swedish market in trading in securities.

By way of introduction, SSDA concurs with the response to the above consultation by the European Banking Federation. In addition, the Swedish Securities Dealers Association wishes to state the following.

The issues raised in the consultation are questions that have to be answered when extending the kind of securities in which transaction have to be reported. However SSDA still see problems in the present reporting of transactions and lack in efficiency in some cases. For instance there are problems and sometimes even impossible to get ISINs or AII codes for financial instruments admitted to trading on a regulated market. The problem often occurs at the time of admitting a security to trading on a regulated market. We have also noticed that it is sometimes hard to know whether a trade has to be reported or not. Another important step is an evaluation of the benefit of transaction reporting and do the competent authorities get the information they need? Does the information that the authorities get give the possibility and necessary background to draw the right conclusions? We do also notice that different countries have different interfaces and ask for different information. This makes the transaction reporting unnecessary burdensome especially if you are doing business in several countries. We think these issues should have been taking care of before analyzing extending the transaction reporting.

Regarding the questions raised in the consultation we have the following views

Q1. What technical standards do you use or intend to use to classify and identify OTC derivatives?

Some members, but not a majority, use standards to classify OTC derivatives. In case classification should be mandatory the members prefer using an accepted part of standard as ISO 20022 (UNIFI) or 10962 (CFI) or FIX. Preferably the same standard should be used to classify both standardised and non-standardised instruments on high level since more and more non-standardised instruments become standardised over time (see for instance CFD's). CFI-classification is used by FIX today which is market practise in the electronic trading area.

Usage of CFI-classification to classify OTC derivatives is limited to one member in Sweden currently, but this member uses the classification on all types of instruments outside Sweden as well.

An updated version of ISO 10962(CFI) is currently being discussed within an ISO working group which hold much more instrument types than the earlier version.

Q2. If you do not use standards, how do you classify and identify OTC derivatives within your IT systems? Please provide classification and identifications systems where possible.

One example of high level categorization is:

A. Standardized derivative / OTC derivative

B. Type of derivative:
  - Forward (including futures)
  - Option
  - Swap

C. Type of underlying:
  - Equity
  - Interest
  - Commodity
  - Other

An another example is using the CFI-standard

E =Equities
D=Debt Instruments
R=Entitlements (Rights)
O=Options
F=Futures
S=Structured Products
T=Referential Instruments
M=Others (Miscellaneance)

Derivative instruments are mainly within Options, Futures and Structured Products groups.
For instance Structured Products has underlying asset:
Structured products
3rd attribute: Underlying assets
B = Basket   -S-X-B-*-*-*-
S = Stock-Equities   -S-X-S-*-*-*-
D = Debt Instruments   -S-X-D-*-*-*-
T = Commodities   -S-X-T-*-*-*-
C = Currencies   -S-X-C-*-*-*-
I = Indices   -S-X-I-*-*-*-
R = Ratings   -S-X-R-*-*-*-
N = Interest rates   -S-X-N-*-*-*-
M = Others (Miscellaneous)   -S-X-M-*-*-*-

X as second attribute = not-applicable in high level classification

Futures include both Forwards and Swaps.
Not all characters in the CFI-code needed when classifying instruments on a high level.

Q3. What characteristics to you use to create identifiers for OTC derivative contracts for your systems (if relevant)? Please provide practical examples.

The OTC derivatives typically only have a transaction id (a unique identifier which can be a counter) Each OTC derivative transaction carries its own transaction details with all the necessary information needed to describe that particular transaction.

<u>Other aspects</u>

The structure of the OTC derivatives changes quite fast, new types of OTC derivatives are developed and existing ones changes, and thereby also the information on these transactions. We think that an automatic transaction reporting of these transactions would have to be at a very basic level, and suggest that the Competent Authorities make specific requests to the reporting firm when the details on specific transactions are needed. Otherwise the Transaction Reporting system would have to change a lot faster than is possible today, to keep up with the changes on the market for these kinds of transactions. In the case of extended reporting it is important to notice the increasing complexity in derivatives. Even such simple instruments as swaps demands much more information compared with today's reporting to make it possible to get useful aggregations of trading information. Lack of this additional information will often give misleading information. It is important that the transaction reporting system should not be a hinder for market developments.

Swedish Securities Dealers Association