**Your input: consultations**

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| **ESMA Consultation Paper:** review of the technical standards on reporting under Article 9 of EMIR |

**Combined Standard Life Investments and Citi response 13 February 2015**

Standard Life Investments (SLI) welcome the opportunity to respond to some of the points discussed in the above noted FCA paper. We are a global investment management firm, managing £195.1 billion\* in assets on behalf of clients worldwide. Our investment capabilities span equities, bonds, real estate, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Standard Life Investments has prepared comments in conjunction with our third party administrator and reporting partner Citi, who perform an integral part in the process of reporting trades to our chosen Trade Repository, DTCC. We have also jointly contributed to and support the response being submitted by the Investment Association (IA).

We would like to raise a number of general comments

**Level 2 (L2) Implementation Date**

We are concerned that there is still no clarification as to when L2 will be implemented. Initial indications of a Q2 2015 timeline had been mentioned around the time of L1 publication; however, since the communication of L1 Phase II, we have heard Q3 2015 being mentioned. We would like to stress to ESMA the real necessity for date proposals to be released as soon as possible and for ESMA to take into account the technology build and development complexity required, along with sufficient testing time required, before any potential go-live date is determined.

**LEI Status**

It is still unclear as to how users are to ensure that counterparties have a particular LEI status at any particular time, and whose responsibility it would be to ensure a particular party follows up to update / amend / rectify an LEI Status. Clarification on this matter from ESMA would be welcomed.

**Margin / Collateral Reporting**

We wish to raise a concern that the changes to this area of reporting cannot be underestimated. It is agreed that such enhancements and validation requirements are needed (when thinking ahead to the introduction of Mandatory OTC Clearing) and that such changes will enhance transparency and therefore aid in reducing potential risk (or at least in making it easier to identify). However, this will come at a significant price – that being the significant system changes and developments required. There is a lack of clarification on certain aspects of this area which are still under investigation by many users but we are aware that a few of these are being raised in the response prepared by the IA.

**Q3: What difficulties do you anticipate with the approaches for the population of the mark to market valuation described in paragraphs 21 or 19 respectively? Please elaborate and specify for each type of contract what would be the most practical and industry consistent way to populate this field in line with either of the approaches set out in paragraphs 21 and 23.**

**Regarding Mark To Market (MTM)**

We can accommodate using valuations consumed from CCP for accounting purposes (although mapping is required), therefore have no concern that inconsistencies will occur should ESMA / DTCC adopt this approach also. We would like to suggest that it may be of use for DTCC / ESMA to allow for tolerances due to differing valuation models that may / can be used by various counterparties?In addition, we have slight concerns, (also raised by ISDA) regarding the cash flows aspect of additional reporting requirements to be implemented – i.e. initial margin and variation margin. Even though it is stated in ESMA’s consultation paper – paragraph 24, that MTM values should not take into account such cash flows as margin, we feel that this area (MTM) should be highlighted as ‘one to watch’ to track any potential adverse effects from final L2 proposals – linked to the up-coming mandatory OTC Clearing date for Q1 2016.

**ETD – Regarding MTM**

We have no concerns with an approach to use valuations consumed from a CCP for accounting purposes. As before we suggest that it may be of use for DTCC / ESMA to allow for tolerances due to differing valuation models that may / can be used by various counterparties? It is believed that ETD and OTC Cleared should follow / adopt the same logic where fields and products allow.

**Q9: Do you think the introduction of the dedicated section on Credit Derivatives will allow to adequately reflect details of the relevant contracts? Please elaborate.**

Initial analysis indicates various additional mappings are to be added dependent upon the final clarification of field information to be required / optional / added. Mapping would need to be a combination of static data and trade economics, including instrument specific information. An introduction of such a dedicated section should provide for a greater reflection of details of such trades / contracts, i.e. country codes where a CDS underlying is a sovereign.

However, it is still unclear at this stage what level of detail of such (complex) contracts can be ‘accurately’ described in a set formatted table / report; and what field / field headings would best represent this? We believe ISDA are echoing such thoughts, whereby they agree that a certain level of additional detail is better than none – but what exact detail would benefit all parties is still unclear, and what would be required / optional / conditional is still unclear.

**Q10: The current approach to reporting means that strategies such as straddles cannot usually be reported on a single report but instead have to be decomposed and reported as multiple derivative contracts. This is believed to cause difficulties reconciling the reports with firms’ internal systems and also difficulties in reporting valuations where the market price may reflect the strategy rather than the individual components. Would it be valuable to allow for strategies to be reported directly as single reports? If so, how should this be achieved? For example, would additional values in the Option Type field (Current Table 2 Field 55) achieve this or would other changes also be needed? What sorts of strategies could and should be identified in this sort of way?**

We agree that clarification of description would be useful to clear up any possible differing interpretations. Regarding linking vertically as well as horizontally, initial analysis suggests that although logical in theory, this could prove difficult to implement in operation. We see it as more of a’ nice to have’ rather than necessity (when also taking into account other major enhancements being proposed for L2).

Clarification is required on ‘common transaction reference of their own choosing’. Should this be for one side only to aid with internal reports and reconciliations; then the feeling is this shouldn’t be too much difficulty or build work (i.e. UTI, Reporting Tracking Number (horizontal), Deal / Straddle ID (Vertical). However, not having an ‘internal reference’ would make all investigations extremely difficult. There is already a Data Submitter Message ID field used and we query will this field remain? Can this field be used as report tracking number? We are unsure how we can link reported trades with internal system records without having a common reference that would usually be the link.

If it mean for both counterparties to have a common reference, this could become very difficult – i.e. it is already proving difficult to have real UTI agreed. We wonder which side would create the reference; are both sides required to report? It is our view that a lot of ‘open’ questions on this point still remain.

**Q11: Do you think that clarifying notional in the following way would add clarity and would be sufficient to report the main types of derivatives:**

We support the idea of retaining a single field for Notional.There are complexities for Notional across products, lifecycle events and action types.The initial ESMA suggestion of Original and Actual Notional Fields, whereby the latter would be populated upon changes to the contract terms (i.e. lifecycle event / position change) appears to be a valid proposal, however it is felt that a preferred method would be creating a sensible and clear approach to updating the original Notional field rather than creating a new field.

Set rules or clearer guidelines by ESMA regarding Notional and/or potential additional fields in templates would be welcome. As an example, in the case of Exotic trades where currency units are traded rather than a quantity in units, ISDA comments are backed up. Clarity is needed from ESMA as to whether it would be more appropriate to put a default quantity value of 999s; set the quantity to be the same as the Notional which is represented in currency units, or set the quantity to 1 as is sometimes the case.

*\*(as at 30 June 2014)*