2014

# FpML Response to Malaysian Regulatory Agencies

Joint Public Consultation Paper
Trade Repository Reporting Requirement for
Over-the-Counter Derivatives

This document constitutes the FpML response to the joint consultation paper No. 1/2013 published 20 November 2013 by Bank Negara Malaysia (Central Bank), Suruhanjaya Sekuriti (Securities Commission Malaysia), and Perbadanan Insurans Deposit Malaysia (PIDM).

FpML Regulatory Reporting Working Group & FpML Standards Committee
**2014-01-20**

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# 1. Introduction

Financial product Markup Language (FpML), through the FpML Standards Committee, appreciates the opportunity to provide Bank Negara Malaysia (Central Bank of Malaysia), Suruhanjaya Sekuriti (the Securities Commission), and Perbadanan Insurans Deposit Malaysia (PIDM) (herein referred to as "Malaysian Regulatory Agencies") with comments and recommendations on the Joint Public Consultation Paper Trade Repository Reporting Requirement for Over-the-Counter Derivatives[1].

We fully support the response submitted by ISDA. The analysis conducted and provided in this comment letter is an addition to the ISDA response with a focus on technical implementation. 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[2] has been very beneficial. We would welcome a similar engagement with Malaysian Regulatory Agencies, preferably early on in the process.

## 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.

Within in the broader standards landscape, we collaborate actively with ISO on the further development of the ISO 20022 standard and with standard organizations that cover other parts of the financial standards landscape.

## Regulatory Reporting Coverage in FpML

A variety of changes have been made to the FpML standard to allow for coverage of the reporting requirements in different jurisdictions with an initial focus on the Dodd-Frank regulation and CFTC reporting requirements. A core design principle has always been to implement a robust technical framework that could be leveraged by global regulators, as new regulations become available.  To that effect we have tracked requirements that are specific for a particular reporting regime in a structure that accommodates the needs of multiple regulators. Over a period of time, FpML has been actively

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[1] The Consultation Paper is publicly available at the regulators' respective websites, including: http://www.bnm.gov.my/documents/2013/TR_Joint_Consultation_Paper_final191113.pdf

[2] 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/pipermail/rptwg/

involved with other regulatory bodies in Asia, the US and Europe in devising compliant solutions in order to report the specific data fields for various regulatory regimes.

As mentioned previously, the work done has benefitted greatly from regulatory involvement in the FpML working groups and we believe that a similar process in Malaysia would be very positive for the regulatory community and the industry.

## Data Standards and Interoperability with Other Regulators

We value references made to data standards in the Consultation Paper. Particularly in the area of identifiers, we strongly suggest leveraging the work done by the industry and regulatory community to date with unique identifiers on a global basis.

Various international regulators and supervisory bodies[3] have called for the use of three unique identifiers in relation to derivatives data reporting:
- Unique Trade Identifier (UTI)
- Unique Product Identifier (UPI)
- Legal Entity Identifier (LEI)

### Legal Entity Identifier (LEI)

Recommendation: FpML strongly encourage the Regulatory Agencies to reconsider the use of the SWIFT code for identifying parties to a trade. Instead, we recommend the adoption of the legal entity identifiers (LEIs) that are available through the Global Legal Entity Identification System (GLEIS). The GLEIS, developed under the auspices of the Financial Stability Board (FSB) and endorsed by the G20, is aimed at achieving a unique, unified global system of identification of parties to financial transactions. FpML can represent SWIFT codes, LEIs, and any other type of party identification system.

The following FpML fragment illustrates a party, Bank X, identified using its ISO 17442-compliant LEI:

```
<party id="party1">
  <partyId partyIdScheme="http://www.fpml.org/coding-scheme/external/iso17442">5493001RKR55V4X61F71</partyId>
  <partyName>Bank X</partyName>
</party>
```

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[3] ESMA Discussion Paper: Draft Technical Standards for the Regulation on OTC Derivatives, CCPs and Trade Repositories - http://www.esma.europa.eu/consultation/Consultation-Draft-Technical-Standards-Regulation-OTC-Derivatives-CCPs-and-Trade-Reposi
CPSS-IOSCO Consultative Report on OTC Derivatives Data Reporting and Aggregation Requirements: http://www.bis.org/publ/cpss96.htm
CFTC: 17 CFR part 43 and part 45: http://www.cftc.gov/LawRegulation/DoddFrankAct/Dodd-FrankFinalRules/index.htm

## Unique Trade Identifier (UTI)

The UTI is used to uniquely identify a trade or contract. The industry is committed to utilization of a single unique identifier to report transactions, even as reporting expands globally. This approach promotes efficiency and consistency, and facilitates global aggregation and reconciliation of trade repository data. Most value will be derived by the regulatory community and the industry if there is one global UTI, and FpML fully support the ISDA UTI workflow paper which sets out the principles for a global UTI[4].

The comments in this response focus on compatibility of the Malaysian Regulatory Agencies' requirements with requirements in other jurisdictions. In addition we strongly believe that Malaysian Regulatory Agencies, together with other regulators should push for a global solution, potentially under the auspices of the FSB, as has been done for LEI.

The UTI constructs contain two parts: A first part to uniquely identify the entity that assigns the UTI; and, as second part, a trade identifier that is unique for that entity. The combination gives a Unique Trade Identifier.

The first part uniquely identifies the entity through the *issuerIdScheme* specifically for use in the UTI context, e.g. *issuerIdScheme* =http://www.fpml.org/coding-scheme/external/issuer-identifier. The second party uniquely identifies the trade through the *tradeIdSCheme* specifically for use in the UTI context.

```
<trade>
  <tradeHeader>
    <partyTradeIdentifier>
      <!-- UTI -->
      <issuer issuerIdScheme="http://www.fpml.org/coding-scheme/external/issuer-identifier">FCHUXIINML</issuer>
      <tradeId tradeIdScheme="http://www.fpml.org/coding-scheme/external/unique-transaction-identifier">123456789012345
    </partyTradeIdentifier>
    ...
    <tradeDate>2014-01-20</tradeDate>
  </tradeHeader>
```

Recommendation: In Annex 1, data field "Transaction Reference No." is described as "Unique internal transaction number assigned by the reporting entity to a particular transaction." We recommend providing support for UTI as well. FpML can represent multiple trade identifiers, including UTI as well as internal identifiers.

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[4] http://www2.isda.org/functional-areas/technology-infrastructure/data-and-reporting/

## Unique Product Identifier (UPI) / Taxonomy

Unique Product Identifier ("UPI") is a required value for reporting by many global regulators. ISDA developed the ISDA OTC Taxonomies for classification of OTC derivatives and continues to work with global regulators to promote its adoption. The taxonomy values form the basis for the UPI.

A product classification system, where traded products can uniquely be identified, allows regulators to perform data aggregation for the purpose of monitoring exposures to, or positions in, various groupings of products. The ISDA OTC taxonomies support regulatory mandates to increase transparency for public and regulatory reporting.

**The ISDA OTC Derivatives Taxonomies** went through a public comment period; are freely available and has rules of operations that allow for further evolution of the taxonomies through a transparent process. In addition the rules of operations are open to further input from regulators.
The ISDA taxonomies are currently used for CFTC and JFSA reporting and have been integrated into FpML. Also Ontario Securities Commission (OSC) has acknowledged the ISDA taxonomies as the industry standard product identification for reporting in Canada.

The ISDA OTC taxonomies and Taxonomy Rules of Operations are freely available on the ISDA website:
http://www2.isda.org/otc-taxonomies-and-upi/

In FpML, the product identification code or taxonomy code is captured using a *<productType>*.

```
<swap>
  <primaryAssetClass>InterestRate</primaryAssetClass>
  <productType>InterestRate:IRSwap:FixedFloat</productType>

<fxSingleLeg>
    <primaryAssetClass>ForeignExchange</primaryAssetClass>
    <productType>ForeignExchange:Forward</productType>
```

The *<productType>* field derives its values from the Product Taxonomy coding scheme http://www.fpml.org/coding-scheme/product-taxonomy which is direct electronic implementation of the ISDA OTC Derivatives Taxonomies.

# 2. Analysis

The analysis presented in the remainder of this document is a detailed analysis and impact assessment on a standards level of the Malaysian Regulatory Agencies' requirements, as defined in Annex 1 of the Consultation Paper, against the coverage as defined in FpML version 5.6, which is the FpML version that covers US, European, Canadian, Australian as well as some Asian reporting requirements.

This analysis takes into account all minimum data fields required to be reported to a designated trade repository for derivatives data reporting. We highlight below the fields that need additional clarification, with suggested changes where appropriate. For other fields, we explain how the mechanism works in FpML.

## Data format

We would like to make general recommendations on the usage of data types, formatting, and defined list of values.

### Dates

Dates are specified as DD/MM/YYYY in Annex 1. Certain countries also use the format MM/DD/YYYY which may potentially lead to confusion when data is aggregated from multiple jurisdictions (e.g., 12/01/2014 or 01/12/2014).

Recommendation: We recommend using ISO 8601 international representation YYYY-MM-DD e.g., 2014-01-12. FpML supports this unambiguous ISO date representation.

```
<calculationPeriod>
  <calculationPeriodFirstDay>2013-01-01</calculationPeriodFirstDay>
  <calculationPeriodEndDay>2013-01-31</calculationPeriodEndDay>
</calculationPeriod>

<maturity>2013-01-15</maturity>
```

### Boolean fields

We assume the data fields that can take Yes/No values will be implemented using Boolean data type as these can be more tightly validated by an XML parser. (FpML is using true/false by convention, rather than yes/no.)

```
<applicable>true</applicable>

<intentToClear>false</intentToClear>
```

## Defined Lists of Values (Coding Schemes and Enumerations)

Certain data fields can take values from predefined lists (e.g., Option Style = European, or Master Agreement Type = ISDA1992) which are readily available in FpML. If they are not already available in the FpML standard they could certainly be added.

FpML defines predefined lists of values (domains) one of two ways:
1. Small, fixed domains are modeled using XML Schema **Enumerations**.
2. Domains that can change over time are modeled using FpML **Coding Schemes**. They are conveniently maintained outside of the FpML schema. Coding schemes can be standard FpML schemes (e.g., developed to support OTC products and transactions) or they can be external coding schemes (i.e., leveraging ISO currency codes, or country codes.)

Examples:

- **FpML Enumeration** (The FpML *BusinessDayConventionEnum* enumeration has 8 fixed values, unlikely to change rapidly e.g., FOLLOWING, MODFOLLOWING, PRECEDING). Enumerations are defined in the schema and data fields can be validated directly by the XML parser.

```
<dateAdjustments>
   <businessDayConvention>FOLLOWING</businessDayConvention>
```

- **Standard FpML coding scheme** (values drawn from http://www.fpml.org/coding-scheme/day-count-fraction)

```
<dayCountFraction>ACT/360</dayCountFraction>
```

- **External FpML coding scheme** (leveraging the ISO currency codes)

```
<outstandingNotionalAmount>
   <currency>USD</currency>
   <amount>6000000</amount>
</outstandingNotionalAmount>
```

   FpML uses the ISO currency codes by default. The *currencyScheme* attribute defaults to coding scheme URI specifically defined to refer to ISO 4217.

```
<currency currencyScheme="http://www.fpml.org/coding-scheme/external/iso4217-2001-08-15">USD</currency>
```

For more information on FpML Coding Schemes, see http://www.fpml.org/spec/coding-scheme.

# Annex 1: (1) Counterparty Information: reporting counterparty, broker reporting agent

FpML does not define explicit data fields for the different type of parties e.g., broker, reporting counterparty, agent, clearing firm, for example. There would be simply too many XML elements to define. Instead, FpML defines a generic and flexible *<party>* structure which can be assigned a *<role>* within the context of a trade.
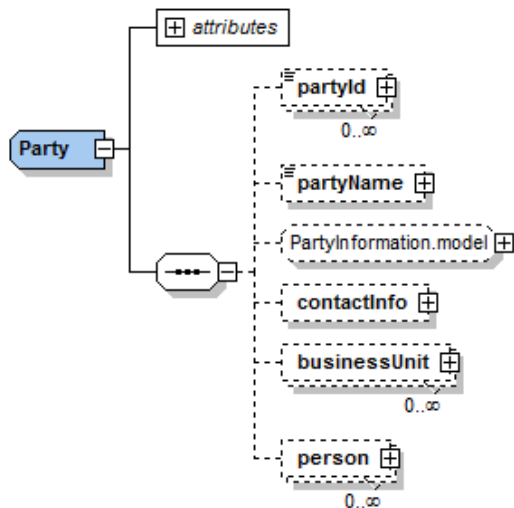


Parties are defined using the *<party>* structure. The following FpML fragment defines 2 parties using their LEIs.

```xml
<party id="party1">
  <partyId partyIdScheme="http://www.fpml.org/coding-scheme/external/iso17442">549300PHRH56BP
  <partyName>Bank ABC</partyName>
</party>
<party id="broker1">
  <partyId partyIdScheme="http://www.fpml.org/coding-scheme/external/iso17442">549300SXT5ZEGZ
  <partyName>XYZ Brokeage Inc</partyName>
</party>
```

Within a trade, the *<relatedParty>* structure defines the role specified in this field for the base party. For example, if the role is "ExecutingBroker", the related party acts as a broker for the base party.
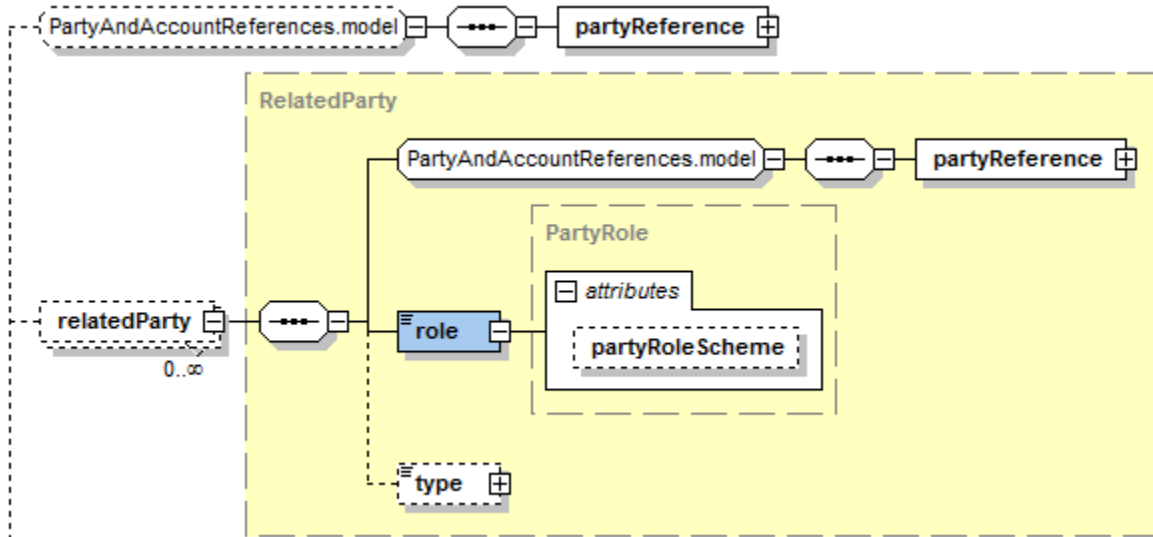


```xml
<trade>
  <tradeHeader>
    ...
    <partyTradeInformation>
      <partyReference href="party1" />
      <relatedParty>
        <partyReference href="broker1" /> <!-- broker 1 is party 1's broker -->
        <role>ExecutingBroker</role>
      </relatedParty>
    </partyTradeInformation>
```

- A standard XML ID/HREF mechanism relates the base party and related party to their respective definitions.
- The different party roles are defined using an FpML coding scheme: http://www.fpml.org/coding-scheme/party-role.

# Annex 1: (2) Transaction Information: Master Agreement Type

FpML defines a set of standard Master Agreement Types which can be found in the FpML documentation in the scheme section. We strongly recommend the use of the existing coding scheme for the description of Master Agreement Type. The use of free text as a format definition is not recommended.
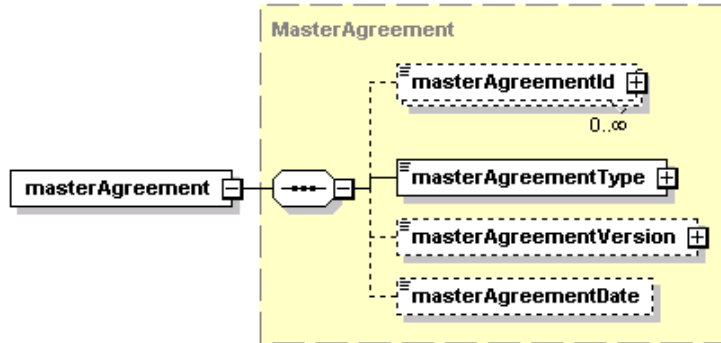


The *MasterAgreementType* references several master agreements used in the industry as shown in the following table (a number of additional values are under consideration as of this writing).

| MasterAgreementType | Explanation |
| --- | --- |
| AFB | AFB Master Agreement for Foreign Exchange and Derivatives Transactions |
| German | German Master Agreement for Financial derivatives and Addendum for Options on Stock Exchange Indices or Securities |
| ISDA | ISDA Master Agreement |
| LEAP | Leadership in Energy Automated Processing |
| Swiss | Swiss Master Agreement for OTC Derivatives Instruments |
| EFETGas | EFET General Agreement Concerning The Delivery And Acceptance of Natural Gas |
| EFETElectricity | EFET General Agreement Concerning the Delivery and Acceptance of Electricity |
| GTMA | FOA Grid Trade Master Agreement |
| EEIPower | EEI Master Power Purchase and Sale Agreement |
| NAESBGas | NAESB Base Contract for Sale and Purchase of Natural Gas |
| NBP | Short Term Flat NBP Trading Terms and Conditions |
| ZBT | Zeebrugge Hub Natural Gas Trading Terms and Conditions |
| SCoTA | globalCOAL Standard Coal Trading Agreement |
| MCPSA | CTA Master Coal Purchase and Sales Agreement |
| LBMA | International Bullion Master Agreement Terms published by the London Bullion Market Association |

As shown in the following example, the representation of a *masterAgreement* in FpML includes the Type, Version and Agreement Date. All three might be needed to uniquely identify the Master Agreement in question.

```
<masterAgreement>
   <masterAgreementType>ISDA</masterAgreementType>
   <masterAgreementVersion>1992</masterAgreementVersion>
   <masterAgreementDate>2002-08-01</masterAgreementDate>
</masterAgreement>
```

Validation engines can validate the content of the *masterAgreementType* by looking up the publicly available coding scheme http://www.fpml.org/coding-scheme/master-agreement-type.

## Annex 1: (4) Contract Information

### Unique Product Identifier
*"Unique product identification code based on the taxonomy of the product."*

FpML recommends the use of the **ISDA OTC Derivatives Taxonomies** for product classification and use as UPI. See *"UPI/Taxonomy"* under the Introduction section of this document.

In FpML, the product identification code or taxonomy code is captured using a *<productType>* element.

```
<swap>
   <primaryAssetClass>InterestRate</primaryAssetClass>
   <productType>InterestRate:IRSwap:FixedFloat</productType>

<creditDefaultSwap>
    <primaryAssetClass>Credit</primaryAssetClass>
    <productType>Credit:SingleName:Corporate:StandardNorthAmericanCorporate</productType>
```

The *<productType>* derives its values from the Product Taxonomy coding scheme http://www.fpml.org/coding-scheme/product-taxonomy which is a direct electronic implementation of the ISDA OTC Derivatives Taxonomies.

## Type of Contract

*"Indicate whether the contract is an option, swap or forward. For combination of products, classification should be based on the primary contract type. For example, a swaption should be classified as an option, a forward starting swap should be classified as a forward etc."*

The information regarding the contract type is derived from **products** in FpML. The Following table shows the extensive list of products supported by the standard and used by the industry.

| | Asset Class | Product | Product Variants |
|---|---|---|---|
| | n/a | Strategy | |
| | | genericProduct (to represent an OTC derivative transaction whose economics are not fully described using an FpML schema.) | |
| | | standardProduct (to represent a standardized OTC derivative transaction whose economics do not need to be fully described using an FpML schema because they are implied by the product ID) | |
| **Interest Rate Derivatives** | **Interest Rate** | bulletPayment | |
| | | capFloor | |
| | | fra | |
| | | swap | break clauses (cancelable, extendible, early termination), asset swap, inflation swap, Brazilian swap |
| | | swaption | American, European, Bermuda, Cash/Physical |
| **Foreign Exchange** | **FX** | fxSingleLeg | Spot, Forward, Non-Deliverable Forwards |
| | | fxSwap | |
| | | fxOption (fxSimpleOption in 3.x/4.x) | Knock-in and knock-out options, Side averaging rate option, barrier option |
| | | fxDigitalOption | |
| | | termDeposit | Dual Currency Deposit |
| **Credit Derivati** | **Credit** | creditDefaultSwap | CDS index, CDS Basket, Loan CDS, CDS on Mortgage |
| | | creditDefaultSwapOption | |
| **Equity Derivatives** | **Equity** | equityOption | various option features/exercise types |
| | | equityOptionTransactionSupplement | |
| | | brokerEquityOption | |
| | | equityForward | |
| | | returnSwap (formerly equitySwap) | |
| | | equitySwapTransactionSupplement | |
| | **Dividend** | dividendSwapTransactionSupplement | |
| | **Variance** | varianceSwap | |
| | | varianceSwapTransactionSupplement | |
| | | varianceOptionTransactionSupplement | |
| | **Correlation** | correlationSwap | |
| | **Bond Options** | bondOption | bond, convertible bond |
| **Commodities** | | commoditySwap | financially and physically settled |
| | | commodityForward | bullion |
| | | commodityOption | financially-settled, forwards |
| | | **commoditySwaption** | physically-settled options |

Each contract type corresponds to a product or product variant that can be uniquely identified using a product taxonomy code. FpML can work with Malaysian Regulatory Agencies to map existing ISDA product taxonomy codes to existing contract type codes the Regulatory Agencies may have.

Each product / variant has its own schema representation in FpML. By way of example, for an Interest Rate Vanilla Swap with a fixed and floating leg, this would be the high-level representation in FpML.

```xml
<swap>
  <primaryAssetClass>InterestRate</primaryAssetClass>
  <productType>InterestRate:IRSwap:FixedFloat</productType>
  <swapStream>
      <!-- details of the fixed leg -->
  </swapStream>
  <swapStream>
      <!-- details of the floating leg -->
  </swapStream>
</swap>
```

Other products would have different structures and data fields.

## Asset Class

*"Indicate the broad category of underlying reference asset(s) of the contract (e.g., interest rate, equity, credit, foreign exchange, commodity or others)."*
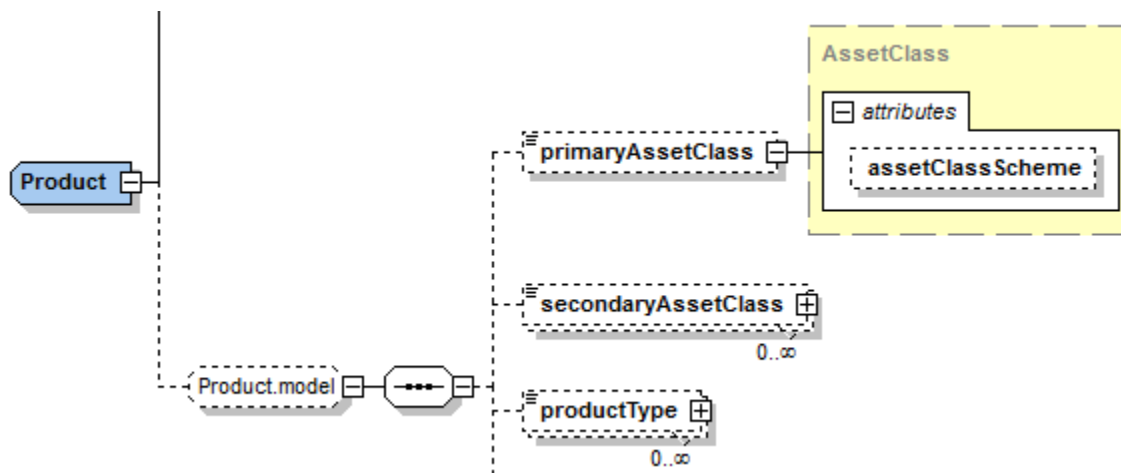


The FpML standard has an existing Asset Class coding scheme which is used to represent a simple asset class categorization.

```xml
<creditDefaultSwap>
    <primaryAssetClass>Credit</primaryAssetClass>
```

Further information can be found at **http://www.fpml.org/coding-scheme/asset-class**

## Reference Asset

*"Indicate the specific underlying reference asset of the contract. e.g., KLIBOR"*

**Reference Assets –** FpML provides support for reference assets through multiple fields. The *<floatingRateIndex>* element, for example, can reference to all the indexes published in ISDA documentation.

```
<floatingRateCalculation>
    <floatingRateIndex>USD-LIBOR-BBA</floatingRateIndex>
```

The different values, e.g., LIBOR or KLIBOR, are drawn from the *floatingRateIndex* coding scheme http://www.fpml.org/coding-scheme/floating-rate-index.

**Underlying Assets –** In addition to representing reference assets, FpML has a representation of a fairly large number of simple, standardized financial instruments. These instruments, called "Underlying Assets" in FpML, can be used for a variety of purposes:

- As underlying assets in various derivatives, including:
  - o Equity options
  - o Equity swaps
  - o Asset swaps
- As reference obligations in credit default swaps for a variety of purposes in pricing and risk, including:
  - o For describing curve inputs
  - o For describing benchmark asset prices

The following table summarizes the underlying assets available in FpML.

| Underlying Asset | Description |
|---|---|
| bond | a security typically delivering interest coupon payments and requiring the repayment of a principal amount at its maturity |
| cash | an asset in monetary form, typically held in a bank account |
| commodity | a commodity underlying asset |
| convertibleBond | a bond that can under specified circumstances be converted into equity (e.g., common stock) in the issuer |
| deposit | a term deposit, a money market instrument of fixed duration yielding a specific interest rate |
| equity | an ownership share in an entity, typically common stock |
| exchangTradedFund | a fund whose units can be traded on an equity exchange |
| future | identifies the underlying asset when it is a listed future contract (a standardized, daily-settled contract traded on an exchange for the purchase or sale of an asset at some specified date in the future) |
| fx | identifies a simple underlying asset type that is an FX rate. Used for specifying FX rates in the pricing and risk |
| index | an asset whose value is based on the value of a set of instruments, typically equities |
| loan | an underlying asset that is a loan |
| mortgage | a mortgage backed security |

| | |
|---|---|
| **mutualFund** | a pooled investment vehicle that takes positions in a variety of financial instruments, typically equities |
| **rateIndex** | an interest rate index, such as USD LIBOR |
| **simpleFra** | a simple, benchmark Forward Rate Agreement |
| **simpleIrSwap** | a simple, benchmark Interest Rate Swap |
| **simpleCreditDefaultSwap** | a simple, benchmark Credit Default Swap |

The underlying asset framework is very similar to the product framework. In places where underlying assets are used, a substitution group allows the asset to be substituted as required.  The structure contains standard data fields available for all assets (e.g., *instrumentId* can be used to capture the ISIN, CUSIP or other code) and fields specific to each asset (e.g., currency, maturity, coupon rate).

By way of example, *equity* is an FpML underlying asset and can be used as a basket component in the following way:

```
<underlyer>
  <basket id="SP500Top3">
    <basketConstituent>
      <equity>
        <instrumentId instrumentIdScheme="http://www.fpml.org/coding-scheme/ext/instrument-id-bloomberg">TIT.ME</
        <description>Telecom Italia spa</description>
        <currency>EUR</currency>
        <exchangeId exchangeIdScheme="http://www.fpml.org/coding-scheme/ext/exchange-id-MIC">Milan Stock Exchange
      </equity>
      <constituentWeight>
        <openUnits>432000</openUnits>
      </constituentWeight>
    </basketConstituent>
```

### (4.1) Swaps and Forward Contracts

Are the fields specified in the call for comment applicable to Commodity Swaps and Forwards? The comments on this section assume that they are, and describe some resulting questions or issues to be solved. If not, please ignore the comments, but clarify the scope in the document.

### *Fixed rate of leg 1, Fixed rate of leg 2*

For commodities these "rates" will be fixed prices expressed in currency per unit of measure. So there will need to be a unit of measure and a currency field associated with the fixed leg.

### *Floating rate index name(1), floating rate index name(2)*

For float-float commodity swaps there will need to be a specification of the floating rate index name on both legs.

### *Floating rate index name(1), floating rate index name(2)*

In addition to the name of the commodity reference price or index, there should a specification of the nature of the observed price. This is called the "specified price". Examples include the "settlement" price, or the "closing" price.

### *Floating leg reset frequency*

Commodities does not use the term "reset". Rather, a "Calculation Period" is defined and this Calculation Period can be of different lengths: hour, day, week, month, year. We suggest that the documentation of this field be modified to read: "Indicate how frequently the floating leg is reset or indicate the length of the Calculation Period, where applicable (e.g. daily, monthly, quarterly, annually)."

For commodities there is a specification not just of the floating rate index on a floating leg but also a specification of how the floating price used to calculate the cash flow on the floating leg. For example, some floating leg may use all observations.

## (4.2) Contract Information: Contracts with Options

Are the fields in the call for comment applicable to Commodity Options?  The comments on this section assume that they are, and describe some resulting questions or issues to be solved.  If not, please ignore the comments, but clarify the scope in the document.

### Contract Price/Rate

It is unclear what this item is.  In commodities this would be a reference to a commodity reference price or index name.  If it were an Asian option, as with commodity floating legs, this would be accompanied by specification of the actual price calculation (e.g. which price observations are averaged).

### Option premium and option premium currency

For commodities the premium is expressed in currency units per unit of measure.  There should be a unit of measure field added.

### Option Price/Rate

For commodities the strike price will be expressed as a currency value per unit of measure.  There is a need to add a unit of measure field.

## (5.3) Commodities Derivatives Information

### Unit of measure

It is frequently the case that there is not a single unit of measure which applies to all economic features of a commodity swap or option.  The most frequent instance of this is a spread swap which hedges a portion of the process of converting commodity to energy.  These swaps have two floating legs each denominated in a different unit of measure.  Examples include a spark spread (MMBtu and MWh) and a crack spread (BBL and Gallons).

We recommend that this field be eliminated and unit of measure fields be added to accompany price, rate and quantity fields, as appropriate.

# Annex 1: Collateral Information

## Collateralisation
• "Indicate if collateralization was performed (Yes/No)"

While we agree on the presence of the field we advise reusing the codes currently defined by FpML.

| FpML | Description |
|---|---|
| **Fully** | Both initial margin (independent amount) and variation margin will be posted. For Transparency view, both parties will do this; for Recordkeeping view, this party will do this (a separate indicator in the other partyTradeInformation block is used for the other side) |
| **Partially** | Variation margin (but not initial margin) will be posted. For Transparency view, both parties will do this; for Recordkeeping view, this party will do this (a separate indicator in the other partyTradeInformation block is used for the other side). |
| **OneWay** | Applies to Transparency view only. One party will post some form of collateral (initial margin or variation margin.) |
| **Uncollateralized** | No collateral is posted for this trade. In Transparency view, no collateral is posted by either party; in Recordkeeping view, no collateral is posted by the counterparty. |

Ref: http://www.fpml.org/coding-scheme/collateral-type

## Type of Collateral Posted
Typically for larger firms collateral is posted not against a single trade, but rather against a portfolio of trades. For this reason position keeping and reporting systems do not typically track collateral posted on a trade by trade basis, so it is difficult to report this for each position. Nor is the type of collateral posted typically very relevant except in the details of the collateral process, and there can be several types of collateral for any given portfolio. Each type of collateral is given a different "haircut" to adjust for its riskiness, and the total collateral posted is compared against the collateral requirement for the portfolio. It would be extremely difficult to capture the nuances of this process on each trade that is reported. For this reason we recommend that this field be omitted in line with other regulators worldwide.

## Type of Collateral Received
Typically for larger firms collateral is received not against a single trade, but rather against a portfolio of trades. For this reason position keeping and reporting systems do not typically track collateral received on a trade by trade basis, so it is difficult to report this for each position. Nor is the type of collateral received typically very relevant except in the details of the collateral process, and there can be several types of collateral for any given portfolio. Each type of collateral is given a different "haircut" to adjust for its riskiness, and the total collateral received is compared against the collateral requirement for the portfolio. It would be extremely difficult to capture the nuances of this process on each trade that is

reported.  For this reason we recommend that this field be omitted in line with other regulators worldwide.

## Maintenance Margin Requirement

## Variation Margin

## Threshold

## Minimum Transfer Amount

Typically for larger firms collateral maintenance margin, variation margin, threshold, minimum transfer requirements are not specified not against a single trade, but rather against a portfolio of trades.  For this reason position keeping and reporting systems do not typically track maintenance margin on a trade by trade basis, so it is difficult to report this for each position.    For this reason we recommend that this field be omitted in line with other regulators worldwide.

In place of the above fields, we recommend tracking the independent amount and independent amount currency for each trade.  These values are used to offset the market risk of each trade and go into the calculation of the overall collateral position for the firm.  In addition, Malaysia may wish to look at the collateral portfolio valuation requirements published by ESMA.

## 3. Conclusion

The FpML standard –in particular version 5.6– is well equipped to represent all the reportable data fields the Malaysian Regulatory Agencies recognize. The gaps and suggestions identified are few. We expect to include these in the next release of the standard.

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

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