NOTIFICATION: SONIA benchmark reform - DSB PRODUCTION & UAT UPDATE

Audience: All DSB Users

Notification details:

The purpose of this notification is to provide implementation details about changes being made by the DSB to accommodate the upcoming SONIA benchmark reforms, effective Monday 23rd April and the requirement for all users to implement these changes for this date. Further information on the change and the DSB's implementation can be found below.

Background:

- Thu 5th April – FpML change notification received by the DSB
- Tue 10th April – industry driven Product Committee requirements finalized and business rules agreed
- Thu 12th April – pre-implementation discussions held with the Bank of England (BoE) and the Financial Conduct Authority (FCA)
- Mon 23rd April, BoE will be taking on the end-to-end administration, including the calculation and publication of SONIA. For more information about the changes to the SONIA benchmark rate, please see here: https://www.bankofengland.co.uk/news/2017/october/sonia-reform-to-be-implemented-on-23-april-2018

Impact to users:

- The change in SONIA benchmark will mean a new addition to the FpML (Financial products Markup Language) floating rate index schema, which the DSB currently uses to source its 'Reference Rate' and 'Other Reference Rate' enumeration list for interest rate product definitions

- The International Swaps and Derivatives Association, Inc. (ISDA) has published the pre-publication draft for the **GBP-SONIA-COMPOUND** floating rate index. Further detail on this can be found in the link below

- **Note:** this pre-publication draft can be subject to change prior to the 23rd April. The final code will be published by ISDA on the 23rd April. Any changes to the enumeration list ahead of 23rd April will delay the DSB's implementation timeline owing to the enrichment rules being impacted. For further information please see here: https://www.isda.org/2018/03/28/sonia-reform-faqs-and-pre-publication-draft-of-gbp-sonia-compound/

- GBP-WMBA-SONIA-COMPOUND will not be published beyond 20 April 2018; however, it is necessary to retain it in the schema (e.g. for any back reporting)

- Templates affected:
  - Production: 26 templates will be updated
  - UAT: 34 templates will be updated

- Due to the compressed nature of this release, documentation will be released by close of business 13th April

Implementation timelines:

- **UAT** Testing Period - 16th to 20th April 2018

- **PRODUCTION** - 23rd April 2018

Documentation availability:

- JSON Schema - close of business 13th April

- DSB Product Definitions – close of business 13th April

- DSB Product Definitions - Annex 7 Indices – close of business 13th April

The DSB will be publishing a Q&A document relating to the SONIA benchmark and its impact on the creation of DSB ISINs on Monday 16th April 2018. The document will be available on the DSB website and users will be notified

Action Required:

1. **DSB Users are requested to upgrade to the new templates and conduct sufficient testing to satisfy the implementation of the revised DSB templates – including testing and consumption of the end of day snapshot files**
   a. **This requires users' UAT environments to be able to accommodate the new DSB templates as early as possible during the test period (16th to 20th April)**
   b. **This requires users' Production environments to be able to accommodate the new DSB templates in time for user on 23rd April**

2. **All DSB users (with the ability to create ISINs) are requested to assist with the regression testing of all live DSB templates they currently use and notify the DSB of any issues by cob Wed 18th April 2018 so that we can work to address these with you**

Impacted Templates:

Template Name	Will be available in UAT on 16th April 2018	Will be available in Production on 23rd April 2018
Request.Rates.Swap.Non_Standard.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Fixed_Float_Zero_Coupon.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Fixed_Float_OIS.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Fixed_Float.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Cross_Currency_Zero_Coupon.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Cross_Currency_Fixed_Float_NDS.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Cross_Currency_Fixed_Float.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Cross_Currency_Basis.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Basis_OIS.InstRefDataReporting.json	Y	Y
Request.Rates.Swap.Basis.InstRefDataReporting.json	Y	Y
Request.Rates.Option.Non_Standard.InstRefDataReporting.json	Y	Y
Request.Rates.Option.CapFloor.InstRefDataReporting.json	Y	Y
Request.Rates.Forward.FRA_Index.InstRefDataReporting.json	Y	Y
Rates.Swap.Non_Standard.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Fixed_Float_Zero_Coupon.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Fixed_Float_OIS.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Fixed_Float.InstRefDataReporting.V1.json	Y	Y

Rates.Swap.Cross_Currency_Zero_Coupon.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Cross_Currency_Fixed_Float_NDS.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Cross_Currency_Fixed_Float.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Cross_Currency_Basis.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Basis_OIS.InstRefDataReporting.V1.json	Y	Y
Rates.Swap.Basis.InstRefDataReporting.V1.json	Y	Y
Rates.Option.Non_Standard.InstRefDataReporting.V1.json	Y	Y
Rates.Option.CapFloor.InstRefDataReporting.V1.json	Y	Y
Rates.Forward.FRA_Index.InstRefDataReporting.V1.json	Y	Y
Request.Rates.Swap.Inflation_Basis.InstRefDataReporting.json	Y	N (Template only in UAT)
Request.Other.Swap.Non_Standard.InstRefDataReporting.json	Y	N (Template only in UAT)
Request.Other.Other.Non_Standard.InstRefDataReporting.json	Y	N (Template only in UAT)
Request.Other.Option.Non_Standard.InstRefDataReporting.json	Y	N (Template only in UAT)
Rates.Swap.Inflation_Basis.InstRefDataReporting.V1.json	Y	N (Template only in UAT)
Other.Swap.Non_Standard.InstRefDataReporting.V1.json	Y	N (Template only in UAT)
Other.Other.Non_Standard.InstRefDataReporting.V1.json	Y	N (Template only in UAT)
Other.Option.Non_Standard.InstRefDataReporting.V1.json	Y	N (Template only in UAT)

3. Please note the templates below are currently in **UAT and will not be released on 21st April** as previously advised due to the focus on accommodating SONIA benchmark reforms at short notice:
   - Rate Inflation Basis
   - Commodities Multi Exotic Swap

- o   Commodities Multi Exotic Option
- o   Commodities Multi Exotic Forward

Extended Maintenance:

- Users should note that there will be an extended <u>UAT maintenance window on the 14th April at 12am UTC</u> to accommodate the updated templates

Delivery Risks & Implications:

Please note that achieving the 23rd April 2018 milestone requires taking significantly higher risk with DSB stability and the quality of the delivery than is the DSB's preferred operating model. In particular:

1. DSB internal testing is proposed to be performed in parallel with public UAT testing. This increases the following risks:
   a. Lower quality delivery of functionality into public UAT, thereby increasing the likelihood of several revisions in UAT next week
   b. Such revisions increase the likelihood that some users accidently deploy an out-of-date version into Production with risks to DSB system stability in Production

2. DSB deployment into UAT in parallel with the public documentation release. This increases the following risks:
   a. UAT instability resulting from some users starting to create the new ISINs quickly, and other users not yet having upgraded (or upgrading incorrectly)

   b. Invalid error handling by institutions who are yet to complete full DSB integration

3. Reduction of the UAT period to one week increases the following risks:
   a. some industry participants unable to create or consume the new ISINs
   b. Production system instability as a result of (a) above
   c. Some important defect not being noticed in the shortened UAT cycle, necessitating emergency bug fixes post go-live, which in turn may require painful remedial action to fix already submitted regulatory reports etc.

   d. The impact of scheduled internal infrastructure changes that cannot be decoupled from the SONIA benchmark reform related amendments may also lead to some system instability due to the deployment complexity

Other Risks & Implications

- **Governance**: On 10 April, the Product Committee gave clear guidance that higher risks are acceptable in order to accelerate the timelines. However, previous broader industry and regulatory guidance to the DSB has been to request the DSB to focus on stability and lowered risk as a primary objective. System stability has also been emphasised by the FCA.

- **Disconnection of users who put the DSB stability at risk following production deployment**: Given the heightened risk to stability, the DSB may need to proactively disconnect users from UAT or Production if in its reasonable opinion such action is required for the stability of the system

- **Failure of Users to Migrate in Time:** The DSB will make a final determination of industry readiness to migrate to Prod next week, based on UAT stability and number of users who have upgraded their systems.

Please contact technical.support@anna-dsb.com for all support & connectivity issues.