

Answers highlighted in yellow.

## 1 Consultation Considerations

Responses should be objective, and where users believe that the DSB's proposals should be amended and/or augmented, alternate solutions should be proposed, with responses listing specific and actionable alternative solution(s) that would be acceptable to the respondent to ensure that the DSB can work to reflect the best target solution sought by industry and within the governance framework of the utility.

### 1.1 Q1 – User Estimates

**Summary:** The DSB estimates approximately that 20,000 organizations globally are likely to connect to the DSB to access UPI data, with supporting rationale set out below. This estimate is predicated on a steady state expectation based on the information set out in the supporting information.

**Question 1a:** *Do you concur with the UPI user connectivity assumptions set out below?* **Yes**

**Question 1b:** *If not, what specific alternate approach do you recommend? Please provide a clear rationale and cite publicly available sources for any additional data points you believe should be incorporated into the DSB's assumptions.*

#### Supporting Information:

In light of the DSB's current EU and UK focused service offering, it is expected that the DSB will have to onboard a significant number of new users to accommodate the transition from a European to a global service. In addition, given the possibility that the OTC ISIN will remain the only identifier for derivatives that are reported under the MIFID requirements<sup>1</sup>, and that the MIFID definition of 'venue traded' is broader than the EMIR<sup>2</sup>, it is expected that EU based institutions may require either the OTC ISIN or the UPI, subject to the outcome of the results of consultation held in the summer of 2020<sup>3</sup>.

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<sup>1</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-technical-standards-trade-repositories-under-emir-refit>

<sup>2</sup> European Market Infrastructure Regulation (EMIR)

<sup>3</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-mifir-reference-data-and-transaction-reporting>

A similar scenario may occur in the UK, where on-venue (ToTV and uToTV<sup>4</sup>) OTC derivative trades expected to be reported with an OTC ISIN, and off-venue OTC derivative trades expected to be reported using a UPI.

These assumptions have an impact on the estimated number of organizations that will need to consume the UPI – either directly from the DSB, or via a third party as part of downstream data distribution initiatives by industry.

The DSB utilized four approaches in arriving at estimated numbers of legal entities that may need to connect directly to the service. These included:

- leverage the lessons learned in the three years since the OTC ISIN was launched,
- identify publicly available and validated data points and citations
- solicit regulatory feedback
- obtain anecdotal market feedback

In doing so, the DSB has determined that while a great deal of public information is available about the OTC derivatives market, the information available is insufficiently granular to allow for meaningful estimation of the list of users seeking to connect to the DSB, particularly in light of the varying user workflows available to the user, as described in section **Error! Reference source not found.** of this paper. Analysis and research undertaken by the DSB has thus relied upon comparables based on a variety of input variables, with the resulting data points helping determine the hypothesis being taken forward.

Key drivers factoring into the DSB's estimated user numbers are:

- Regulatory expectation:
  - There is an expectation of up to 120,000 entities reporting a UPI based on transaction reports currently being submitted in a variety of jurisdictions (allowing for the dual sided reporting requirement)
  - Using the DSB's experience (see DSB assumptions below) regulatory feedback suggests that approximately 18,000 organizations may become paid users of the DSB's UPI service, as the average existing DSB user has just under 7 affiliates.
  - Similarly, looking at the split between the different types of users and the proposal set out in questions 1.2, 1.3, and 1.4 below, it can be assumed that 60% (almost 11,000 institutions) may be expected to connect programmatically, with the remaining connected as paid users of the web-front service that facilitates manual access
  - Several countries note that that a concentration of reporting entities exists, although there is a significant spectrum of firms that submit high volumes of transaction reports, with 22 firms submitting 90% of all reports in one jurisdiction (of a total of approximately 2,000 reporting entities), and 160 entities submitting 80% of all reports in another.
  - As a guide, it is worth considering that a parent organization connected to the DSB can have multiple legal entities that use the identifier<sup>5</sup>, and thus a large number of individual users that

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<sup>4</sup> Traded on a Trading Venue (ToTV) and underlying Traded on a Trading Venue (uToTV) as defined by MiFID and MiFIR

<sup>5</sup> Subject to the terms set out in the DSB Access and Usage Agreement and accompanying policies - <https://www.anna-dsb.com/download/dsb-2021-ua-policies-final/>

may need to be onboarded by the DSB itself, subject to the preferred workflow of the organization as described earlier in this paper.

- Anecdotal feedback from industry:
  - Here too there is no meaningful consensus, with the spectrum varying by the type of institution that provided feedback.
  - In broad terms, industry participants involved in global regulatory reporting of OTC derivatives noted their expectation of between 3k and 4k legal entities at parent level, representing approximately 40k entities when affiliates are accounted for
- DSB assumptions based on first principles analysis:
  - Predicated on the data held by the DSB in the three years since launch of the OTC ISIN service
  - At the start of 2021 the DSB has 124 organizations, representing approximately 830 entities as paid users of the service (i.e. can create or search for data – either programmatically or via the web-front end, and download end of day files), with a further 300 entities as users of the free service (can connect to manually search for data and download end of day files)
  - The DSB’s initial projections (ahead of obtaining regulatory feedback) indicate that approximately 2,000 organizations, representing 13,300 legal entities (i.e., including affiliates) may be expected to connect on a programmatic basis, and that a further 14,000 organizations representing 93,000 legal entities will connect to the manual service on a paid basis (i.e. to create data using the DSB web front end). On this basis, extrapolating the number of free users of the service based on the current ratio of paid to free users of the OTC ISIN service, the DSB anticipates that a further 36,000 organizations are likely to connect to the UPI Reference Data Library for search and download of UPI records.

**DSB Proposal:**

As regulatory feedback is predicated on current user reporting practice and is thus deemed to be the most accurate data source currently available, the DSB proposes to move forward on the following assumptions based on the assumption of 18,000 organizations that may become paid users of the DSB’s UPI service as cited above:

- 12,000 organizations representing 80.5k legal entities will pay to connect programmatically
- 8,000 organizations representing 53k legal entities will pay to connect manually
- 20,000 organizations representing 133.5k legal entities will connect free of cost

## 1.2 Q2 – Forecast User Interaction with the DSB

**Summary:** The DSB anticipates that users will require support for three types of workflows, subject to their regulatory needs. Some users will only require the ability to create, search for and/or download the UPI reference data record, whilst a second category may only require the ability to create, search for and/or download the OTC ISIN, and a third set of (likely global) participants are likely to have reporting needs that require either the UPI or the OTC ISIN, subject to their reporting jurisdiction.

**Question 2: Do you concur with the anticipated workflows presented below? Yes. I would like to see each of 3 scenarios supported by extending the existing API.**

**Question 2b: If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend**

### Supporting Information:

The DSB anticipates that following launch of the UPI service, users will connect to the DSB service to support one of three needs:

- Organizations that only require access to the UPI and the UPI record
- Organizations that only require access to the OTC ISIN, CFI and FISN and the OTC ISIN record (the current DSB service)
- Organizations that require access to the full suite of UPI, CFI, FISN, and OTC ISIN in light of their global footprint and the commensurate diversity of reporting needs

The DSB anticipates that every OTC ISIN record would contain the UPI code as part of the OTC ISIN record itself. Similarly, the UPI record would be expected to contain a FISN and a CFI code. Details regarding the cost allocation methodology for the service are set out in section 1.5.

### DSB Proposal:

It is anticipated that the following data elements would be available in each scenario set out above:

- Organizations that only require access to the UPI – would obtain a UPI reference data record containing all input and derived data elements associated with the UPI
- Organizations that only require access to the OTC ISIN, CFI and FISN (the current DSB service) – would obtain an OTC ISIN reference data record containing all input and derived data elements associated with the OTC ISIN
- Organizations that require access to the full suite of UPI, CFI, FISN, and OTC ISIN – would obtain all the input and derived data elements that define each of the UPI, CFI and OTC ISIN

In each instance, the exact set of data elements returned by the DSB for each of the CFI, UPI, FISN, and OTC ISIN are subject to the criteria set out in the associated ISO standard and additional determinations made by the Product Committee.

In relation to the governance criteria for Conflicts of Interest described in section **Error! Reference source not found. Error! Reference source not found.**, users requiring access to the UPI would be able to do so on a stand-alone basis. Whether subscribing to the standalone UPI service or a combined with other services, UPI users will have equitable terms and conditions.

### 1.3 Q3 – User Access

**Summary:** The DSB proposes to facilitate access to the UPI service and the UPI reference data library on a programmatic basis, via a web front end, and via a file download service, with records available in a machine-readable format.

**Question 3a: Do you concur with the proposal presented, which seeks to leverage the core approach utilized for the existing service, and which has been endorsed by industry through several rounds of consultation? Yes**

**Question 3b: If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.**

#### Supporting Information:

DSB users currently access the service using one of the following modes of access:

- Programmatically connect to create and search in near real-time, and download data
- Manually connect to create, search for and download data
- Manually connect to search for and download data
- Manually or programmatically connect to download data from the file download service

The DSB will also be introducing two additional user services in 2021, the search-only Application Programming Interface (API) user to enable lower volume users requiring systematic access, and a snapshot user where an existing user of the DSB can request access to stand-alone data snapshots for any/all asset classes over a specified time horizon.

#### **DSB Proposal:**

The DSB proposes to ensure that UPI users have access to the full suite of access mechanisms that are currently available to DSB users through the existing service. In addition, the DSB proposes to extend user access to also capture the search only programmatic user type and snapshot data service that will be introduced in 2021, following user requests in response to the industry consultation conducted in 2020.

As the result, users requiring UPI data will be able to connect to the DSB in any one of the following ways:

- i. Programmatically connect to create, search for and download data
- ii. Programmatically connect to search at a lower threshold than permitted in (i) above
- iii. Manually connect to create, search for and download data
- iv. Manually connect to search for and download data
- v. Manually or programmatically connect to download data from the file download service

## 1.4 Q4 – Registered User File Download Timing

### Summary:

Given the lower anticipated UPI volumes (compared to the existing OTC ISIN service), the DSB foresees a risk that a larger proportion of the UPI user base (compared to the OTC ISIN service) may rely exclusively on the DSB's free service, which includes the daily generated machine-readable download files. In this circumstance, the cost for each fee-paying user would be higher than otherwise.

In order to mitigate this risk, the DSB proposes to provide access to the daily data files with a two day time-delay.

**Question 4: Do you agree that the DSB should provide access to the UPI end of day data files with a two day time-delay in order to ensure a fair distribution of cost across users? I would like to see another option with separate fee to get the UPI data more frequently, if needed.**

### Supporting Information:

The DSB is proposing to leverage the processes and functionality of its existing systems and services for the UPI wherever appropriate. The existing service includes the generation of end of day machine-readable download files that incorporate the details of the data that was created or modified that day. These data files are currently available for free to all registered users of the service at the end of the day. Therefore by default, the UPI service will also include the generation of end of day machine-readable download files that incorporate the details of all UPI records created or modified that day.

Section **Error! Reference source not found. Error! Reference source not found.** shows the DSB's estimates on the volume of UPIs. These figures imply that the daily volume of new UPIs will be substantially less than the daily volume of OTC ISINs.

This lower UPI volume (compared to the DSB's existing service) creates a risk that a higher proportion of market participants (compared to the DSB's existing service) may feel they can perform their business functions based solely on the DSB's free UPI service by relying on the daily generated machine-readable download files.

Should this risk materialise, the impact will be that a smaller proportion of the user base will need API access to UPI data that has been created intra-day. In this circumstance, the cost of the UPI service will be borne by this smaller proportion of market participants, which would mean that the cost of the service for each fee-paying user would be higher than otherwise.

As a reminder, currently 70% of existing users only access the free OTC ISIN service, with the remaining 30% of users contributing the entire cost of operating the OTC ISIN service. It is important to note, as set out in section **Error! Reference source not found.** above, irrespective of user type all DSB users are able to search for OTC derivative data in near real-time by logging on to the DSB's web front end, conducting a manual search, and downloading the specific record of interest in machine readable format. Market participants are also able to obtain the OTC derivative identifier from their counterparty, or from their trade execution platform, and use the identifier as part of their trading workflows.

The DSB's analysis of UPI reporting requirements across the G20 shows that all jurisdictions expect reporting to occur within two working days of the occurrence of an in-scope transaction. Based on this analysis, the DSB anticipates that free access to the end of day files on a T+2 basis is most likely to result in a similar proportion of free vs paying users for the UPI service as for the existing DSB services.<sup>6</sup>

In consideration of the Cost governance criteria described in section ***Error! Reference source not found. Error! Reference source not found.***, as a means to allocate costs among stakeholders fairly, the DSB anticipates the impact of such a time delay will offset the increased likelihood of proportionally more users subscribing to the free service.

The DSB is aware that many fee-paying API users also access the DSB's existing daily download service, in order to reconcile the DSB's data with their internal caches as well as for other purposes. The DSB assumes there will be similar demand for the daily download service by fee paying users of the UPI service and therefore any proposal should address this demand.

#### **DSB Proposal:**

The DSB proposes to provide free access to the daily download files with a time delay of two days (excluding weekends). So for example, the end of day file for UPI records on Tuesday 20 September 2022 will be generated as usual at the end of day 20 September, but will only be made accessible for free to registered users from end of day Thursday 22 September 2022.

In order to cater for the needs of fee-paying users, the DSB proposes to preserve end of day access to the daily download files to fee-paying users.

#### **Alternative Option**

The DSB also considered not making any modifications to the existing daily download model.

In this option, the DSB would not actively mitigate the identified risk before go-live. Instead, the DSB would monitor the situation in the first year of go-live and if the proportion of fee-paying UPI users were to be lower than the 30% of all users achieved by the DSB's existing service, the DSB would consult with stakeholders in that year to implement changes in the subsequent year.

This approach would simply extend the existing DSB service model to the UPI service and therefore likely have the lowest overall implementation effort and cost for both the DSB and industry.

This option increases the likelihood that in the first year of go-live, a smaller number of fee-paying users would contribute to the cost recovery of the UPI service. The DSB is mindful of its duty to treat all market participants equitably, which may not be seen to be the case, if the DSB did not take active steps to mitigate a known risk. This is the reason the DSB has not proposed this option.

However, the DSB will reconsider this option should industry feedback suggest this is the best course of action.

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<sup>6</sup> Another factor that may affect the proportion of free vs paying users for the UPI service in its first few years of operation is whether or not the DSB pre-populates the UPI Reference Data Library from product definitions held in its OTC ISIN service. A pre-populated RDL may increase the proportion of free users as all the pre-populated data will be available for download at no charge on day 1 of the service. The DSB will examine this question in its second fee model consultation later in 2021.

## 1.5 Q5 – UPI Cost Allocation Methodology

### **Summary:**

In order to keep the UPI build and operating costs low for both industry and the DSB, the DSB will re-use its existing staff, systems and processes wherever appropriate. This re-use will result in shared costs between the DSB's existing services and UPI services and therefore the DSB requires a policy for allocating such shared costs fairly across the services. The policy will be the subject of controls that will be validated through the DSB's third-party assurance programme.

Given the start-up nature of the UPI service, the DSB is mindful that a large initial allocation of overheads against the UPI service may place a large cost onto a small number of users in the initial jurisdictions that go live with the UPI. Therefore, the DSB is proposing a phased approach with the allocation of shared costs against the UPI service rising incrementally in the first few years.

Specifically, the DSB proposes that:

- The initial UPI build costs be amortised as per existing DSB policy (as consulted in section 1.8 / *1.8 Capital Expenditure Amortisation Approach*), with the first year of amortisation being 2023. This means 2022 UPI users will not contribute towards the amortisation costs, given the smaller anticipated number of UPI users in 2022 vs 2023
- 100% of the synergies available by leveraging the existing DSB platform to be allocated to UPI users in 2022 and 2023, after which the available synergies to be shared between both OTC ISIN users and UPI users via an allocation policy that the DSB will propose and consult with stakeholders in 2023

***Question 5: Do you agree with the DSB's proposed cost allocation policy for the DSB's costs?***

### Supporting Information:

The interim report of the DSB's Technology Advisory Committee Strategy Subcommittee (TAC SSC) in 2019 recommended extracting synergies from the DSB's systems and technologies wherever appropriate. The TAC SSC believed this approach would keep UPI costs low for both industry and the DSB, by maximising re-use of existing staff, systems and processes.

Based on this recommendation, the DSB is creating a UPI build and operate model that leverages the DSB models from its existing services wherever appropriate. This re-use will result in shared costs between the UPI services and the DSB's existing services in multiple areas, including staffing, systems and processes.

The DSB therefore intends to extend its current controls and policies to enable third-party validation of cost allocation across the UPI and its existing services for such shared costs. This in turn means that it will be very helpful for such policies and controls to be based on simple and objective criteria that allow independent validation.

Additionally, the DSB is mindful that, during the start-up phase of the UPI service, with the UPI mandates being gradually phased in across the G20, there may need to be a phasing of costs such that UPI users are only asked to take the full burden of the cost of the UPI service when a critical mass of UPI users from multiple jurisdictions have been on-boarded onto the platform.

This consideration, which was also a factor in the start-up phase of the DSB's OTC ISIN service, addresses the potentially inequitable scenario of the initial UPI users paying large per-user fees because the costs of the UPI service in the initial months are divided amongst a relatively small number of users. To mitigate this risk, the DSB is proposing a phased approach for the recovery of the costs of the UPI service, with full cost recovery only occurring after the service has been live for some time.

The DSB observed the following principles when devising its proposal (detailed below):

1. Ensure the financial stability of the DSB
2. Provide an equitable fee model for the initial UPI user base
3. Ensure users of the DSB's existing services are never worse off as a result of the UPI service build and run
4. Ensure an end state that provides an equitable allocation of shared costs across the DSB's existing user base and the UPI user base
5. Leverage existing DSB processes and policies wherever appropriate

#### **DSB Proposal:**

The DSB proposes to phase in a gradual increase in costs allocated to the UPI user base from 2022 to 2024 as described below.

##### 2022 Q3-Q4

- UPI users only pay the DSB's incremental operating expenditure cost uplift
- No allocation of UPI build costs in 2022 (working capital is provided by DSB shareholders)
- No allocation of DSB shared costs to UPI users

##### 2023

- UPI users only pay the DSB's incremental operating expenditure cost uplift
- Plus the amortisation of UPI capex as per DSB capital expenditure rules<sup>7</sup>
- No allocation of DSB shared costs to UPI users

##### 2024

- UPI users only pay the DSB's incremental operating expenditure cost uplift
- Plus the amortisation of UPI capex as per DSB capital expenditure rules
- Plus a portion of shared costs<sup>8</sup> (shared cost allocation policy to be determined based on Industry Consultation to occur in 2023)

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<sup>7</sup> The DSB is proposing a 4 year amortisation period for the UPI capex as explained in 1.8 Q8 – Capital Expenditure Amortisation Approach. This means the amortisation will occur in the years 2023-2026.

<sup>8</sup> Such shared costs are the result of the DSB creating a UPI build and operate model that leverages the DSB models from its existing services wherever appropriate. This re-use will result in shared costs between the UPI services and the DSB's existing services.

This model entails the creation of an explicit shared cost allocation policy to capture all the synergies between the UPI service and the DSB's existing services based on the set of objective rules outlined above. Therefore, in alignment with the Conflicts of Interest governance criteria described in section **Error! Reference source not found. Error! Reference source not found.**, the DSB expects a user that takes both services to pay a fee equivalent to the sum of the fees of both individual services, with no additional discounts or bundling. The rationale for no further discount being provided is that all synergies will already be accounted for by the proposed shared cost allocation policies ensuring fair allocation of costs across services.

The DSB is mindful of the Cost governance criteria described in section **Error! Reference source not found. Error! Reference source not found.** and the need to ensure costs are allocated among stakeholders fairly. The DSB proposal aims to avoid an increased cost being incurred by a smaller number of users in the initial jurisdictions that go live with the UPI. Postponing the decision on the cost allocation policy also allows industry feedback to occur after the UPI service is live and therefore any feedback can be informed by actual data such as operating costs and number of users.

## 1.6 Q6 – Duration of UPI User Agreement

**Summary:** In order to provide clarity on the commitments and responsibilities of UPI users and the DSB to each other, the DSB expects all UPI creators and API users to sign a common User Agreement. Based on feedback from the DSB’s existing user base, the DSB believes the most appropriate period for the UPI User Agreement is the Gregorian calendar year.

The DSB anticipates launching its production UPI service at the end of June 2022. Given the intra-year start to the service, the DSB proposes that the duration of the first User Agreement to be shorter than the standard 12 months in subsequent years, in order to align all subsequent User Agreements with the Gregorian calendar year. This will result in a proportional reduction in the initial fee to compensate for the shorter duration.

**Question 6: Do you agree with the DSB’s proposal for a short duration User Agreement for UPI users in 2022 that ends on 31 December 2022, followed by annual contracts that cover a full Gregorian calendar year? Yes**

### Supporting Information:

As part of on-boarding users onto the UPI platform, the DSB expects all UPI creators and API users<sup>9</sup> to sign a standard User Agreement (UA) with the DSB that is applicable to all such users of the service. This UA will provide clarity on the commitments and responsibilities of UPI users and the DSB to each other, for a defined period of time.

This approach allows the DSB to ensure that at any given point in time, the DSB will treat all UPI users in the same manner, based on a UA that is common to all UPI users.

Feedback from the DSB’s existing user base has been that the Gregorian calendar year is the most appropriate period for any UA, as this aligns best with many organisations’ budgeting period. The DSB notes that the DSB’s accounts are also audited based on the Gregorian calendar year. The alignment of the UA period with the DSB’s accounting period is necessary to allow the approach proposed in section 1.7 Q7 – *Invoicing Approach*.

The DSB anticipates launching its production UPI service at the end of June 2022 in order to support the FSB’s recommendation that implementation of the UPI takes effect no later than Q3 of 2022<sup>10</sup>

The DSB considers the governance criteria of Lean, Cost and Economic Sustainability described in section **Error! Reference source not found. Error! Reference source not found.** as being relevant given the need to minimise complexity, ensure fair allocation of cost among stakeholders, as well as alignment with the invoicing approach to ensure financial viability over time.

### **DSB Proposal:**

The DSB proposes to align the UA period with the Gregorian calendar. Given the intra-year start to the service, the DSB proposes that the duration of the first UA to be shorter than the standard 12 months, in order to align all subsequent UAs with the Gregorian calendar year. This will result in a proportional reduction in the initial fee to compensate for the shorter duration. Users who wish to

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<sup>9</sup> Application Programming Interface – i.e. users with automated access to the DSB’s real-time services

<sup>10</sup> See footnote 9

continue to utilise UPI services at the end of the initial UA period will roll into a renewal period of a full Gregorian calendar year.

### Alternative Options

The DSB also considered the following alternatives:

1. **Whether the UA needs to have a fixed duration:** The DSB considered the option of a UA not having any defined duration and instead being applicable only to a specific request to create a UPI. This alternative option is a similar model to that used for the LEI, where users do not need to sign up for a defined period in order to register or maintain an LEI. Instead, the terms of the LEI service are linked to the specific request to create / maintain an LEI.

The DSB discounted this option because the DSB expects a large number of users to access the UPI service multiple times a day, every day. This is in contrast to the LEI where the number of interactions with the user is much more limited.

Based on feedback from its user base, the DSB expects a single UA that covers a fixed time period to provide a much more efficient contractual framework for UPI users.

2. **Whether the UA duration should be shorter / longer than a calendar year:** Feedback from the DSB's existing user base suggests that most users have annual budget cycles and that an annual UA period will best complement users' existing administrative processes.
3. **Whether the UA should cover 12 months from the date of signature:** This option would result in different users' contracts ending at different times. However, the DSB's cost recovery fee model is based on the Gregorian calendar that aligns with its accounting period. This alignment allows the DSB to link the fees to be charged to a single accounting period, which reduces the complexity of auditing of the cost recovery ring-fence and calculation of number of users for the cost-recovery period. The DSB is not proposing to progress this option due to these identified challenges.

## 1.7 Q7 – Invoicing Approach

**Summary:** In order to provide budget certainty to the user base and guarantee the financial stability of the service, the DSB proposes to invoice users a single fixed amount on, or shortly in advance of, the User Agreement (UA) period to cover the entire UA period.

Any differences between the DSB's actual costs and the revenues received in the UA period will be reconciled after the DSB's accounts for that period have been audited, with any surplus / deficit applied as an adjustment to the user fees for the year subsequent to the audited accounts being finalised.

**Question 7: Do you agree with the DSB's approach to invoicing users for its services? Yes**

### Supporting Information:

The DSB considered the following factors when determining its approach for invoicing:

- Feedback from the DSB's existing user base has emphasised the importance of providing budget certainty to users for the duration of the UA.
- The DSB is required to align user fees with the DSB's costs, as part of its obligation to operate the service on a cost recovery basis.
- Economic Sustainability is a critical governance criterion described in section **Error! Reference source not found.** As an industry utility operating under a cost recovery principle, the DSB requires a funding model that ensures financial viability over time, which includes efficiency and reliability. Any proposal must ensure that the DSB can meet its responsibility for prudent financial management.
- User numbers may change during the year, for example as a result of additional users joining the service.
- Estimated costs may change, for example based on regulatory clarifications or user requests for changes in functionality.

### **DSB Proposal:**

The DSB proposes to charge each category of fee-paying user a fixed fee (albeit varying by user category based on the requested services<sup>11</sup>). This fixed fee will cover the user for the duration of the UA, regardless of the number of times the UPI service is accessed, either for UPI creation or for UPI retrieval / searches.

In order to determine the user fees, the DSB will provide an estimate of the DSB's costs for the UA period and ensure it invoices only the amount required to recover this estimated cost. In order to determine the per-user cost, the DSB will divide the estimated cost by the number of users who have signed the UA or indicated renewal of the UA (for subsequent years). The per user fee will be calculated as the estimated cost divided by the number of users who have signed the UA.

The DSB will reconcile any differences between the DSB's actual costs and revenues for the UA period versus the original estimated costs and revenues after the DSB's accounts for that period have been audited. The DSB proposes to apply any surplus / deficit as an adjustment to the user fees in the year subsequent to the audited accounts being finalised.

### **Alternative Options**

The DSB also considered the following options:

1. **Invoicing at the end of the UA period rather than the beginning:** This option would allow the DSB to provide a better estimate of both costs and revenues. However, it would mean that the DSB would have to outlay the operational costs from its reserves which increases the financial risks to the DSB and makes it more difficult to satisfy the Economic Sustainability criteria described in section **Error! Reference source not found. Error! Reference source not found.** Additionally, users would not have certainty of costs until the end of the UA period which may straddle the budget period for some users. The approach would still require a reconciliation after the audited accounts are finalised (typically 6-9 months after the end of the UA period), thereby increasing uncertainty without simplifying the underlying processes.

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<sup>11</sup> See footnote **Error! Bookmark not defined.**

2. **Invoicing per UPI creation and/or API search & retrieval:** This option is similar to the LEI creation fee and would remove the need for users to make any advance payment. However, it introduces several issues as a result of the fees being dependent on the volume of each user's activity.
- a) User fees would no longer be fixed for the duration of the UA, which would increase budget uncertainty for users.
  - b) The nature of the UPI is that it has no issuer, and the same UPI may well be of interest to multiple users. This leads to a free-rider problem, where any given user who needs a UPI may prefer to wait for another user to create the UPI first (and hence incur the UPI creation cost), with the second user downloading the UPI for free once it has been created.
  - c) This option still requires a reconciliation of costs versus revenues based on the finalised audited accounts. However, the estimated revenues at the start of the UA will be much less certain as they will be dependent on the number of UPIs created during the UA period which is less easy to estimate compared to the number of users of the service. This means users will likely face greater variability in fees as a result of the likely greater discrepancies between actual and estimates revenue figures.

## 1.8 Q8 – Capital Expenditure Amortisation Approach

**Summary:** The DSB will treat the cost of the initial build and any subsequent investment in system enhancements as capital expenditure and will amortize these costs over a number of years, as per generally accepted accounting principles.

The DSB proposes to amortize the capital expenditures over 4 years, starting from the first full year when the service benefits from the capital expenditure. This approach is consistent with the DSB's existing capital expenditure policy.

**Question 8: Do you agree with the DSB's approach to amortisation of its capital expenditure over 4 years, starting from the first full year when the service benefits from the capital expenditure? Yes. Even a period longer than 4 years (up to 6 years), will work for amortisation for capital expenditure, given that UPI is likely to underpin long term IT strategy. But it should not be shorter than 4 years.**

### Supporting Information:

In order to follow accounting best practice, the DSB categorizes all UPI costs into either capital expenditure or operating expenditure. Feedback from the DSB's existing users has been that it is appropriate to recover operating expenditure from the user base in the year it has been incurred but that recovering the entire capital expenditure in the year it is incurred will result in a disproportionate burden of costs falling on initial users, with later users not contributing to the 'sunk cost' of the initial investments.

Satisfying this approach requires amortizing capital expenditure over a number of years rather than in a single year. A long amortisation period reduces the short-term costs whilst increasing the number of years that the capital expenditure is recovered. The impact of the longer duration is that

costs stay elevated and do not reduce to cover only the underlying operating expenditure. A shorter amortisation period has the reverse impact.

The DSB's existing capital expenditure policy is to amortize the capital expenditure over 4 years, starting from the first full year when the service benefits from the capital expenditure.

While there is no necessity for the UPI service's capital expenditure policy to align with the DSB's existing policy, the DSB notes that such alignment will simplify the DSB's accounting processes and aligns with accounting practices for IT systems and software depreciation.

#### **DSB Proposal:**

The DSB proposes to recover operating expenditure on the UPI service from the user base in the year it has been incurred.

In the absence of any information to the contrary, the DSB proposes to recover capital expenditure on the UPI service by extending its existing capital expenditure amortisation policy to the UPI service. This will entail amortizing the capital expenditure over 4 years, starting from the first full year when the service benefits from the capital expenditure.

For example, the UPI service is planned to go live mid-2022. Therefore, one quarter of the cost of building the service will be added to the operating cost of the service in each year from 2023 until 2026. From 2027 onwards, the original capital expenditure for building the service will have been fully amortized and therefore user fees will no longer incorporate this additional cost. The same approach will be applied to any subsequent capital expenditure incurred.

#### **Alternative Options**

The DSB also considered periods other than 4 years for the amortisation of capital expenditure. However, feedback from the DSB's existing user base suggested that a period less than 4 years would place a disproportionate cost burden on users in the early years, while a longer period would be difficult to justify given existing accounting practices for IT systems and software depreciation.

### **1.9 Q9 – Any other comments**

This section is an opportunity for respondents to provide feedback and commentary on any other aspects they believe should be considered.

