Derivatives Service Bureau

Industry Views Sought on the Principles Underlying the Fee Model for the Unique Product Identifier Service

Consultation Paper

11th January 2021

Respondent Details

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Q#	Question	Response
1a	**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 in the supporting information?	
1b	**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.	

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2a	**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 2a**: Do you concur with the anticipated workflows presented in the supporting information?	
2b	**Question 2b:** If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.	
3a	**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 in the supporting information, which seeks to leverage the core approach utilized for the existing service, and which has been endorsed by industry through several rounds of consultation?	

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3b	**Question 3b:** If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.	
4	**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?	We agree on the need for a fair UPI cost structure and recognise this proposal is aimed at mitigating the risk that a small percentage of firms will bear a higher proportion of the UPI service costs. Although a fair distribution of costs amongst users is important, it must not be to the detriment of market participants being out of compliance with reporting requirements. CFTC requires that the UPI[1] be P43 reported "as soon as technologically practicable" and many reporting regimes have a reporting timeframe of T+1. Therefore, a two-day time-delay to providing free access to UPIs would mean market participants would either be out of compliance for their reporting timelines, or either one, or both, of the parties to a contract would need to be a user of one of the fee charging DSB services, (thereby enabling same access to UPIs via an API). In order for UPIs to be free and openly available, and also to be accessible to market participants within a timeframe that permits them to meet their reporting requirements, we propose that access to UPIs should be made available on the end of day data file produced on the same date the UPI is created (with the assumption being the UPI end of day file will be available at the same time as the current ISIN end of day file). Reducing the time-delay from two days to one day was considered, but it was concluded that there would be negligible benefits in doing so, as the above mentioned compliance

[1] #87 in the CFTC Technical Specifications.

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		considerations would not be fully addressed with a one-day time-delay.
5	**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 **Error! Reference source not found.** / ***Error! Reference source not found.*** *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	

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	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?	
6	**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	

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	annual contracts that cover a full Gregorian calendar year?	
7	**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?	
8	**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	

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	service benefits from the capital expenditure?	
9	Please use this space for any other comments you wish to provide.	