EVERSHEDS SUTHERLAND

Eversheds Sutherland (US) LLP
700 Sixth Street, NW, Suite 700
Washington, DC 20001-3980

T: +1 202.383.0100
F: +1 202.637.3593

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VIA ELECTRONIC MAIL

The Derivatives Service Bureau (DSB) Limited
Cannon Place
78 Cannon Street
London, United Kingdom
EC4N 6HL
industry_consultation@anna-dsb.com

Re: Comments in Response to DSB Consultation Paper, *Industry Views Sought on the Principles Underlying the Fee Model for the Unique Product Identifier Service*

Dear Sir or Madam:

I. INTRODUCTION

On behalf of The Canadian Commercial Energy Working Group (the "**Working Group**"), Eversheds Sutherland (US) LLP submits this letter in response to the request for public comment from the Derivatives Service Bureau ("**DSB**") in its consultation paper, *Industry Views Sought on the Principles Underlying the Fee Model for the Unique Product Identifier Service*.[1]

The Working Group is a diverse group of commercial firms that are active in the Canadian energy industry whose primary business activity is the physical delivery of one or more energy commodities to others, including industrial, commercial, and residential consumers. Members of the Working Group are producers, processors, merchandisers, and owners of energy commodities. The Working Group considers and responds to requests for comment regarding developments with respect to the trading of energy commodities, including derivatives, in Canada.

II. COMMENTS OF THE WORKING GROUP

The Working Group appreciates that the DSB is seeking industry input on the proposed principles underlying the fee model for the Unique Product Identifier ("**UPI**") Service. As requested in the DSB Consultation, the Working Group is providing comments and responses

[1] *See* Derivatives Service Bureau, *Industry Views Sought on the Principles Underlying the Fee Model for the Unique Product Identifier Service,* Consultation Paper (January 11, 2021), https://www.anna-dsb.com/download/dsb-upi-fee-model-consultation-paper-1/, (the "**DSB Consultation**").

below in the proposed format to questions directly applicable to members of the Working Group.

Name	Eversheds Sutherland (US) LLP on behalf of The Canadian Commercial Energy Working Group
Email Address	alexanderholtan@eversheds-sutherland.us
Company	Eversheds Sutherland (US) LLP
Country	United States
Company Type	Law Firm
User Type	Not Registered
Select if response should be anonymous	☐

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.	

Q#	Question	Response
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?	

Q#	Question	Response
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?	Global derivatives markets are highly concentrated amongst a few large global dealers. To varying degrees, those dealers are reporting counterparties to the vast majority of OTC derivatives transactions across asset classes. The UPI Fee Model should reflect that concentration and impose a commensurate amount of the cost burden on such dealers. Efforts should be made to avoid imposing material costs on other market participants as such costs may cause them to stop acting as reporting counterparties, which is an anti-competitive result.
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.	

<table>
<tr><th>Q#</th><th>Question</th><th>Response</th></tr>
<tr><td></td><td>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 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?</td><td></td></tr>
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Q#	Question	Response
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 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	

Q#	Question	Response
	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 service benefits from the capital expenditure?	
9	Please use this space for any other comments you wish to provide.	The Working Group encourages the DSB to consider the increased compliance costs associated with accessing or requesting a UPI code for commodity derivatives market participants in the development and implementation of the UPI Fee Model.

Q#	Question	Response
		For example, as noted in the DSB Consultation and the CPMI-IOSCO UPI Technical Guidance, the complexity of commodity markets will likely require a significantly higher number of UPIs across a smaller number of transactions. In addition, a materially high percentage of OTC commodity derivatives take place between two non-dealer counterparties. Consequently, a greater percentage of market participants in OTC commodity derivatives markets will act as reporting counterparties and it is more likely that such market participants will need to request new UPIs or updates to the reference data elements rather than relying on the pre-existing UPI reference data library. The Working Group is concerned that a higher percentage of OTC commodity derivatives market participants will need the ability to access and request UPI codes, including updates to reference data elements, than in other markets. Further, if the UPI Service is too complex and expensive, it could make reporting more expensive and burdensome for reporting counterparties, especially those that report a small number of trades. If a number of non-dealer reporting counterparties determine that the UPI-related costs associated with reporting are too high, they may cease acting as reporting counterparties, which will lower competition in affected markets. This could decrease liquidity and increase costs for end-users that rely upon commodity derivatives markets for their hedging needs. Accordingly, the Working Group respectfully requests that, as the DSB continues to develop the UPI Fee Model, it account for and recognize that markets for OTC commodity

Q#	Question	Response
		derivatives are unique when compared to other OTC derivatives markets and consider the potential disparate impact the UPI Fee Model may have on such OTC commodity market participants.

III. CONCLUSION

The Working Group appreciates this opportunity to provide input to the DSB and respectfully requests that the comments set forth herein are considered.

If you have any questions, please contact the undersigned.

Respectfully submitted,
/s/ Alexander S. Holtan
Alexander S. Holtan
Kimberly R. Thomasson