



## **Derivatives Service Bureau**

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

### **Consultation Paper**

11<sup>th</sup> January 2021

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## 1 Executive Summary

The Association of National Numbering Agencies (“ANNA”) founded the Derivatives Service Bureau (DSB) for the allocation and maintenance of International Securities Identification Numbers (ISINs), Classification of Financial Instrument (CFI) codes and Financial Instrument Short Names (FISNs) for OTC derivatives.

The Financial Stability Board (FSB) announced on May 2, 2019 the designation of the DSB as the sole service provider for the future Unique Product Identifier (UPI) system<sup>1</sup>, performing the function of issuer of UPIs as well as operator of the UPI reference data library. The DSB is working towards providing UPIs for OTC derivatives in the second half of 2022, which will help enable users, such as banks, strengthen risk data aggregation capabilities and internal risk reporting practices and assist regulatory authorities to aggregate data on OTC derivatives transactions to help assess systemic risk as outlined in the 2014 [FSB feasibility study on approaches to aggregate OTC derivatives data](#)<sup>2</sup>.

The DSB is seeking to design, deploy, and operate an efficient UPI service that leverages the capabilities of the existing services (e.g., CFI and OTC ISIN provision) to the extent practicable. As such the UPI fee model proposals set out in this paper are intended to build on the existing framework and recognise that the UPI service will have specific and distinct needs.

The purpose of this consultation is to solicit industry feedback on proposed principles underlying the DSB Fee Model for the Unique Product Identifier Service from as broad a spectrum of participants as possible – both in terms of geographic diversity as well as from a range of differing market structure participants. Feedback provided in response to this consultation will be collated and incorporated into the proposals set out in the second round of consultation that will follow, in line with the timelines set out in section 2 of this paper.

This consultation paper commences by providing an overview of key facts about the UPI including purpose, timelines, and governance in section 0. The paper then sets out key assumptions in section 0 which include expectations of UPI adoption timelines, UPI creation estimates, expectations of alignment with other international data standards that are applicable to OTC derivatives, implementation efficiency drivers, and last but not least next steps relating to ongoing work by the DSB Product Committee and DSB Technology Advisory Committee.

The Consultation Considerations element of this paper, set out on section 5, outlines the questions being asked, supported by analytical context and where the proposed next steps have a cost impact, the key cost drivers have been detailed to allow industry to make a determination about whether they concur with the assumptions and principles set out in the document, or propose alternate evidence driven considerations that they believe should be utilized instead and/or alongside the proposals set out in this paper. Respondents also have the ability to provide any general comments in the final section of the response form provided at the end of this paper.

The DSB works to ensure the broad views and needs of the stakeholders lead the direction of development of the service. By working collaboratively, the DSB has historically been able to ensure all views are considered, and it is hoped that a representative set of firms will seek to respond to this consultation. All responses will be published on the DSB’s website, with respondents able to indicate

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<sup>1</sup> <https://www.fsb.org/2019/05/fsb-designates-dsb-as-unique-product-identifier-upi-service-provider/>

<sup>2</sup> [https://www.fsb.org/wp-content/uploads/r\\_140919.pdf](https://www.fsb.org/wp-content/uploads/r_140919.pdf)

in the response form if they wish the name of their institution to remain anonymous at the point of publication. All responses should be submitted using the form provided in section 6.2 of this paper, and sent to [industry\\_consultation@anna-dsb.com](mailto:industry_consultation@anna-dsb.com) no later than 5pm UTC on 5<sup>th</sup> March 2021.

An explanatory webinar, also providing an opportunity for industry questions to be addressed, will be held at 1pm UTC (1pm UK, 2pm CET, 8am EST) on Wednesday 3<sup>rd</sup> February 2021. All participants are welcome, with a recording to be made available following the event. Registration is required in advance via [DSB website](#)<sup>3</sup>.

## 2 Consultation Timeline

Milestone	Date
Publication of DSB UPI Fee Model Consultation #1	Mon 11 Jan 2021
Explanatory webinar 1 <sup>4</sup> (for attendees in Asia + Australia) <a href="#">Register here</a>	Tue 2 Feb 2021
Explanatory webinar 2 <sup>4</sup> (for attendees in the ROW) <a href="#">Register here</a>	Wed 3 Feb 2021
Industry Feedback deadline (for UPI Fee Model Consultation #1)	Fri 5 Mar 2021
Publication of DSB UPI Fee Model Consultation #2	Mon 10 May 2021
Industry Feedback deadline (for UPI Fee Model Consultation #2)	Fri 9 Jul 2021
Publication of Final DSB UPI Fee Model Report	Mon 27 Sep 2021

The timeline above is with respect to the UPI Fee Model Consultation process. The DSB will separately consult with users on the terms of the Access and Usage Agreement for the UPI service with timelines to be announced in 2021.

## 3 UPI Overview

### 3.1 Purpose of the UPI

Group of 20 national leaders (G20) agreed at the 2009 Pittsburgh Summit that all OTC derivatives transactions should be reported to trade repositories (TRs) as part of a package of reforms to the OTC derivatives markets. The key driver for establishing the UPI, [ISO/WD 4914](#)<sup>5</sup> – which is under development, Unique Transaction Identifiers (UTI), [ISO 23897](#)<sup>6</sup>, Critical Data Elements (CDE) which will be included in [ISO 20022](#)<sup>7</sup>, and Legal Entity Identifier (LEI), [ISO 17442](#)<sup>8</sup>, was to increase transparency in financial markets, mitigate systemic risk, and protect against market abuse following the financial

<sup>3</sup> <https://www.anna-dsb.com/upi-fee-model-consultation-2021/>

<sup>4</sup> Recording will be made available on the DSB website

<sup>5</sup> <https://www.iso.org/standard/80506.html>

<sup>6</sup> <https://www.iso.org/standard/77308.html>

<sup>7</sup> <https://www.iso20022.org/>

<sup>8</sup> <https://www.iso.org/standard/78829.html>

crisis that began in 2007–08. The development of standards for these data elements was in response to a request from the G20 to achieve these objectives.

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published their finalised UPI technical guidance<sup>9</sup> in September 2017. Under the guidance, a unique UPI code would be assigned to each distinct OTC derivatives product and be mapped to reference data elements with specific values that describe the product. The collection of reference data elements and their values for each product would reside in a UPI reference data library administered by the UPI service provider.

UPIs are being introduced as a mechanism to identify OTC derivatives products to strengthen banks' risk data aggregation capabilities and internal risk reporting practices and assist G20 regulators to aggregate global OTC derivatives data by either product or UPI reference data element, together with the CDE and UTI. This will provide users, such as banks, with their risk analysis and assist regulators with an improved, consistent view and common understanding of systemic OTC derivative risks.

In the first instance, the role of the UPI is to uniquely identify the product involved in an OTC derivatives transaction and to identify the product in reports that an authority requires, or may require in the future, to be reported to a TR. The UPI will work in conjunction with UTIs and CDEs, which are also expected to be reportable to regulatory authorities.

Working alongside the UPI and CDE, the UTI is intended to uniquely identify individual OTC derivatives transactions and when required by authorities to be reported to TRs. The UTI will enable aggregation and analysis of these transactions by users, such as banks, and so authorities can use reported information to fulfil their legal obligations and prudential requirements. Further details about the UTI can be found in the UTI technical guidance document<sup>10</sup> published in February 2017.

CPMI and IOSCO also published a guidance document on the harmonisation of critical OTC derivatives data elements other than those in the UPI and UTI. The CDE technical guidance document<sup>11</sup>, published in April 2018, provides information about the definition, format and allowable values of CDEs, other than UTI and UPI, reported to TRs that are important to facilitate consistent global aggregation by authorities.

Although the UPI has been developed with this core purpose, it is recognised the UPI could also serve other purposes, such as other forms of regulatory reporting and market transparency specific to particular jurisdictions or pre- and post-trade processes, with primary use of the UPI contemplated for strengthening banks' risk aggregation capabilities and practices and for the reporting of OTC derivatives transactions to a TR or for regulatory use. It is anticipated that broader use cases for the UPI system – especially in relation to internal business functions – could increase its adoption and usefulness.

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<sup>9</sup> <http://www.bis.org/cpmi/publ/d169.htm>

<sup>10</sup> <https://www.bis.org/cpmi/publ/d158.pdf>

<sup>11</sup> <https://www.bis.org/cpmi/publ/d175.pdf>

## 3.2 Governance Arrangements

### 3.2.1 UPI Governance Components

The FSB, an international body that monitors and makes recommendations about the global financial system, has been responsible for defining the governance arrangements for the UPI. To that end, the FSB designated the DSB as the sole service provider for the future UPI system. The term ‘UPI system’ refers to the UPI code, the UPI reference data library, and the process of assigning a UPI to a set of reference data elements. Accordingly, the DSB will perform the functions of issuance of UPI and maintenance of their associated reference data consistent with the CPMI-IOSCO UPI technical guidance. This is a key step in completing the governance framework for the UPI.

In October 2019, the FSB published the Governance arrangements for the UPI<sup>12</sup>, outlining its conclusions, implementation plan and next steps to establish the International Governance Body (IGB). In co-ordination with CPMI and IOSCO, the FSB identified the Regulatory Oversight Committee<sup>13</sup> (ROC) of the Global Legal Entity Identifier System as best positioned to become the future IGB for the UPI, UTI and CDE in addition to its existing oversight of LEI, provided it made the necessary adjustments to its existing governance to be fit for purpose for these additional identifiers. In September 2020, the FSB announced the transfer of all governance and oversight responsibilities<sup>14</sup> in relation to the harmonised derivatives identifiers and data elements to the ROC as of October 1, 2020. On the same date, ROC announced and published its revised Charter<sup>15</sup>.

Furthermore, the FSB has determined that the UPI Code and the UPI Reference Data Elements should be set as international data standards and has identified ISO as the International Standardisation Body for the development of the UPI standard.<sup>16</sup>

In addition to oversight functions, the governance arrangements also include the need for ongoing coordination between the IGB, the UPI service provider and industry stakeholders. On this basis, the DSB Product Committee<sup>17</sup> and Technology Advisory Committee<sup>18</sup> will function as industry representation groups comprising reporting entities, derivatives infrastructure providers and market data providers.

The UPI service and reference data library operated by the DSB is founded on interactions with five major parties, as set out in the diagram below. Taking each in turn, these comprise the:

- **IGB:** an international regulatory oversight body that should provide overall oversight and coordinate between the UPI Service Provider(s), the International Standardisation Body, and other elements of the UPI Governance Arrangements, as well as to coordinate among the various

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<sup>12</sup> <https://www.fsb.org/2019/10/governance-arrangements-for-the-upi/>

<sup>13</sup> [https://www.leiroc.org/publications/gls/roc\\_20201001-2.pdf](https://www.leiroc.org/publications/gls/roc_20201001-2.pdf)

<sup>14</sup> <https://www.fsb.org/2020/09/lei-roc-to-become-governance-body-for-otc-derivatives-identifiers/>

<sup>15</sup> [https://www.leiroc.org/publications/gls/roc\\_20201001-1.pdf](https://www.leiroc.org/publications/gls/roc_20201001-1.pdf)

<sup>16</sup> It shall be noted that the FSB has no authority over the ISO, so that development of the UPI standard is subject to the usual ISO process (<https://committee.iso.org/sites/tc68/home/news/content-left-area/news-and-updates/unique-product-identifier-upi-ba.html>)

<sup>17</sup> <https://www.anna-dsb.com/product-committee/>

<sup>18</sup> <https://www.anna-dsb.com/technology-advisory-committee/>

stakeholders, and other international standard-setting bodies (including the CPMI, IOSCO and FSB).<sup>19</sup>

The ROC is a group of 67 public authorities with full membership and 18 observers from more than 50 countries.<sup>20</sup> The ROC was set up to oversee the Legal Entity Identifier (LEI) and recently announced an expanded mandate to become the IGB of the globally harmonised UTI, the UPI and the CDE. As IGB of the UTI, UPI and CDE, the ROC becomes the overseer of the designated UPI service provider, The Derivatives Service Bureau (DSB).

The Committee on Derivative Identifiers and Data Elements (CDIDE) is a sub-committee of the ROC with the purpose of supporting the ROC on the ROC's oversight of the implementation of the UPI service and the UPI Reference Data Library by the DSB. CDIDE co-chairs may participate in each of the DSB Product Committee and DSB Technology Advisory Committee (see below) which committees are the Industry Representation Groups described below.

- **Authorities (as members of the ROC) and standard-setting bodies:** will continue to work on implementation, in coordination with the IGB. Authorities of each jurisdiction where the UPI will be reportable (as members of the ROC), and standard setting bodies such as the CPMI and IOSCO also may choose to participate in the Industry Representation Groups described below.
- **Industry Representation Group (IRG):** with representatives of, inter alia, reporting entities, derivatives infrastructure providers, and/or market data providers, to consult with other parts of the Governance Arrangements, including the IGB and the UPI Service Provider. The functions of an IRG are expected to be carried out by two existing DSB advisory committees, whose charters have been expanded to encompass the UPI initiative.

Within the DSB, the two existing advisory committees of the DSB Board of Directors are the Product Committee<sup>21</sup> (PC), and the Technology Advisory Committee<sup>22</sup> (TAC). Both committees comprise a broad range of representatives of entity types and geographical representation.

The DSB PC is an industry group that supports the DSB Board through continuing the work of the ISO study group tasked with defining the ISIN for OTC derivatives. The PC oversees the definitions of a broad range of OTC derivatives and how they translate into data requirements for allocation of these identifiers. They also support the development and inclusion of descriptive taxonomies used to identify OTC derivatives.

The DSB TAC is an industry group that supports the DSB Board on technology issues to ensure that the DSB's technology strategy is aligned with the needs of the markets it serves. The TAC oversees proposed technology changes related to the DSB's services which includes any technical changes identified during the stakeholder consultation process as well as consideration of the workflows and integration needs of the UPI service provision.

- **International Standardisation Body:** The ISO has been nominated as the International Standardisation Body for the UPI. ISO's work on development of the UPI standard began in June 2020 with the aim of publishing a final ISO standard in early 2022. The standard will include the

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<sup>19</sup> The IGB provides oversight over the UPI Service providers and other elements of the UPI Governance Arrangements, as well coordinate with various stakeholders and other international standard-setting bodies (including CPMI, IOSCO, FSB and ISO).

<sup>20</sup> <https://www.leiroc.org/about/membersandobservers/index.htm>

<sup>21</sup> [See footnote 13](#)

<sup>22</sup> [See footnote 14](#)

format and computation of the UPI code, as well as the minimum data elements driven by the UPI Technical Guidance.

ISO provides the framework allowing for a unique UPI Code to be assigned to each distinct OTC derivative product that is reportable to trade repositories. The standard defines the UPI code structure and the minimum set of reference data elements that will describe the product. Reference data element values as well as possible reference data elements in addition to the ISO standard will be determined by the DSB Product Committee working in conjunction with the ISB.

- **UPI Users:** UPI users comprise organizations that will connect to the DSB to create, search for, or download files – on either a fee paying or non-fee-paying basis. Based on the DSB’s experience with the OTC ISIN service, in the three-year period since the service was launched, the DSB expects to continue to see a marked difference between the number and types of firms that will create OTC derivatives reference data records in the DSB (be they for OTC ISIN, UPI, CFI or FISN purposes), and those that consume the data.

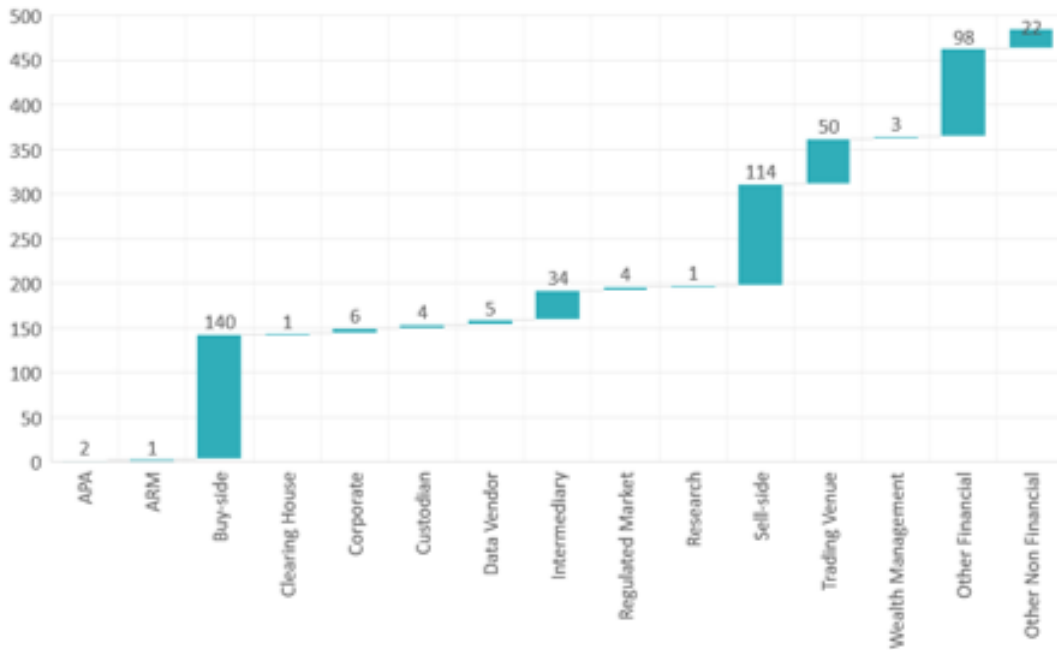
A review of current activity levels shows that at an aggregate level, the sell-side has created 75% of all OTC derivative records in the DSB, with execution platforms, the larger buy-side and some data vendors responsible for creating the remainder. In total, 124 entities pay the DSB to create data and/or search for records, with 60% of this group accessing the DSB in a programmatic manner.

When looking at the full list of organizations that access the DSB today across both fee paying and free of cost users, 470 organisations, almost 70% do so free of cost to download free to use data files. A further 25% access the DSB to create records, search for records, and download data files, with 3% exclusively creating data, and a further 3% exclusively searching for data.

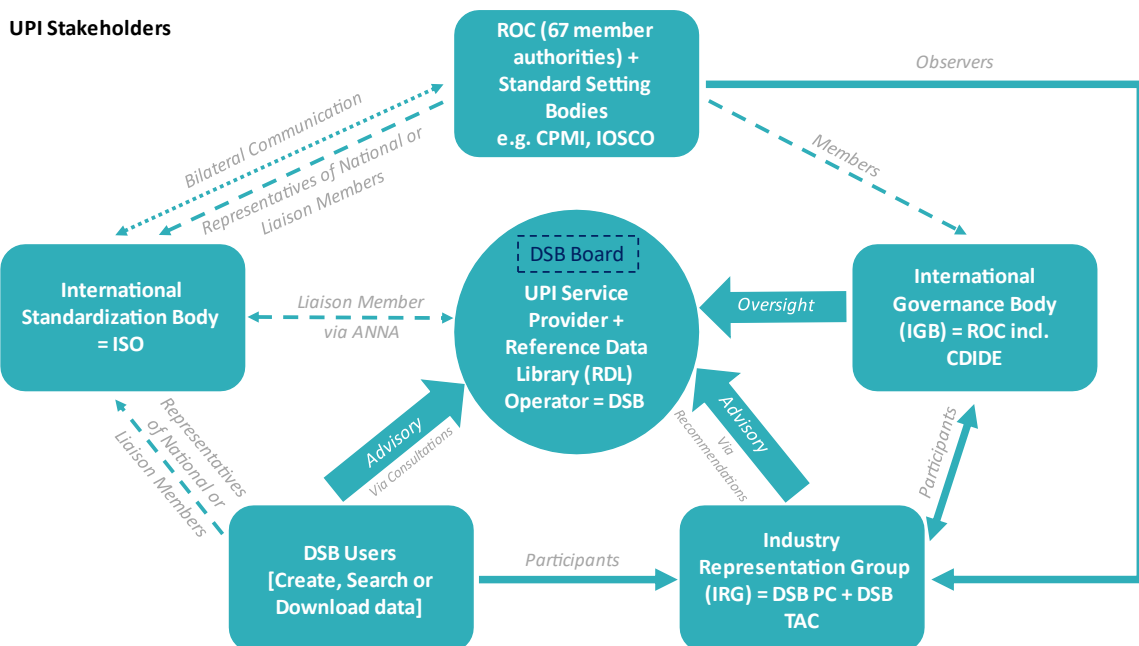
In addition, the data of DSB existing users to date shows that in contrast to the creation of data which is driven by the sell-side and execution platforms, consumers of the OTC derivative reference data generated at the DSB represent a substantively broader composition as set out in the following diagram. It is a reasonable expectation that while the specific numbers of each type of organisation that accesses the DSB for UPI data will vary from current practice, the overall composition of each organisation type is likely to continue given the divergent reasons that users cite in discussions with the DSB.



## Number of Institutions Accessing the DSB for OTC ISIN, CFI and FISN data



- UPI Service Provider(s):** This entity or these entities should provide for timely issuance of UPI Codes and maintenance of their associated reference data consistent with the UPI Technical Guidance.
- Operator of the UPI Reference Data Library (RDL):** an entity that should record all existing UPI Codes and their associated UPI Reference Data. Most respondents to the FSB’s UPI governance consultations did not favour a split between the UPI Service Provider and the Operator of the UPI RDL. On this basis, the DSB is both the UPI Service Provider and the UPI Reference Data Library operator.



### 3.2.2 UPI Governance Criteria

In relation to the governance arrangements, key criteria have been specified by the FSB to guide the choices made. These governance criteria, detailed throughout the FSB governance arrangements consultation process and outlined in the FSB Governance arrangements for the UPI<sup>23</sup>, are provided below.

The governance criteria have been referenced within this paper where related to the UPI fee model principles.

- **Public interest**

Governance should be driven by the public and regulatory interest.

- **Lean**

The UPI Governance Arrangements should not be unnecessarily complex or costly.

- **Change only as needed**

Revisions to the UPI Governance Arrangements, the UPI Technical Guidance and UPI System should be managed on a need-only basis and consider benefits and costs of such revisions to minimise impacts on various stakeholders.

- **Consultative change process**

Changes to the UPI Governance Arrangements, UPI Technical Guidance, and UPI System (except for the day-to-day process of updating the data held in the UPI Reference Data Library) should allow for direct or indirect involvement of stakeholders and should be made after public consultation where appropriate.

- **Economic sustainability**

The UPI Governance Arrangements should be consistent with the need to help ensure the economic sustainability of the UPI System over time.

- **Open access**

Access to, and use of, UPI Codes and the UPI Data Standard should be unrestricted. Authorities should have access to, and use of, the UPI Reference Data Library that is similarly unrestricted. Entities with reporting obligations and TRs should have access to, and use of, the UPI Reference Data Library in a manner that is sufficient to at least allow them to associate a specific OTC derivative product to its UPI Code in a timely manner and facilitate the discharge of reporting obligations for OTC derivatives transactions.

- **Cost**

Any fees charged by the UPI Service Provider(s) should be based on cost recovery and should be allocated among stakeholders fairly. For Authorities, use of the UPI System should be free.

- **Intellectual property**

The UPI Data Standard should not be subject to any intellectual property restriction. Consistent with this, the use of any UPI Code should be free of licensing restrictions. As to the UPI Reference Data Library, intellectual property restrictions should be applied in a manner consistent with the rules applicable in a given jurisdiction.

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<sup>23</sup> [See footnote 9](#)

- **Conflicts of interest**

The UPI Service Provider(s) should have policies and procedures that are reasonably designed to detect and effectively manage any potential conflict of interest. Access to the UPI should not be tied or bundled with any other services offered by a UPI Service Provider.

- **Fit for purpose**

UPI Governance Arrangements should be able to perform the relevant functions identified in a timely and efficient manner and should have reasonable access to the necessary resources and information to do this. UPI Governance Arrangements should maintain the fitness of the UPI System and UPI Technical Guidance for the needs of Authorities.

- **Consideration of other Governance Frameworks**

Governance Frameworks for the UPI should take into consideration other Governance Frameworks that impact other data elements, such as the LEI, the UTI, and other critical data elements for OTC derivatives.

- **Operational viability and continuity of UPI Service Provider operations**

Governance of the UPI System should be such that any UPI Service Provider should be required to have adequate resources, legal authorities, and reasonable policies and procedures in place designated or adequate to ensure operational viability, system security, and business and system continuity and succession, so as to enable it to operate securely and effectively as a UPI Service Provider.

### 3.3 UPI Implementation Timeline

As part of its Governance arrangements for the UPI<sup>24</sup>, the FSB outlined high-level expectations for global UPI implementation planning. It was recognised that jurisdictional implementation is likely to be staggered, occurring at varying speeds because of the independent decision-making processes and prioritisation of initiatives.

Allowing for legal changes to be made and for TRs and reporting entities to adapt, the FSB recommendation is that jurisdictions undertake the necessary actions relevant to their situation to implement the UPI technical guidance<sup>25</sup> no later than the third quarter of 2022.

In preparation for UPI adoption and implementation by supervisory authorities, the DSB continues to work with ROC, and industry stakeholders to refine the requirements and framework for UPI integration.

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<sup>24</sup> [See footnote 9](#)

<sup>25</sup> [See footnote 4](#)

## 4 Assumptions

The DSB assumptions set out below underpin the core approach for the UPI service implementation, and thus impact user fees, which are used for cost recovery<sup>26</sup>. Estimated costs will be included in the next consultation, including a breakdown of the key cost components, subject to the feedback received in response to this paper.

This section includes DSB expectations about jurisdictions' existing or proposed regulatory adoption of rules implementing UPI as a product identifier, the estimated number of UPIs to be created (based on the data elements specified in the UPI Technical Guidance document and available to the DSB via an existing service, the OTC ISIN service provision), DSB expectations regarding alignment of the UPI with other international standards, and the existing service model that the DSB seeks to leverage in application of the Lean governance criteria, described in section 3.2.2 *UPI Governance Criteria*, in order to minimize delivery and implementation costs accrued by clients.

With respect to the fee model related considerations set out in this paper, the DSB recognises the need for revaluation following initial adoption of the UPI service to ensure that that the UPI model remains fit for purpose. As such, the DSB intends to consult on the key aspects underlying the fee model 2 years after launch of the UPI service.

### 4.1 Leveraging the DSB's Existing Service Provision

Leveraging the DSB's existing service provision seeks to provide two primary benefits – the first is a reduction of the UPI user fee burden by minimizing implementation and run costs for the DSB, and the second is a reduction of the user's own technology burden so that the several hundred institutions already connected to the DSB can overlay their UPI related workflows in a manner that is more integrated with their other OTC derivative reference data needs.

The DSB is the golden source of the OTC ISIN, CFI and FISN for OTC derivative instruments, for institutions located in or trading with counterparties in the European Union (EU) and the United Kingdom (UK).

The allocation of ISINs, CFI and FISNs for OTC derivatives as well as the provision of access to the OTC ISIN archive and associated reference data, comprise the numbering agency function of the DSB. This function is overseen by ANNA as the Registration Authority for ISIN and FISN standards under contract with the ISO requiring strict adherence to principles over business and technical operations. This includes limiting user fees to cost recovery and requiring reasonable and non-discriminatory (RAND) access to data.

Implementation of OTC ISIN, FISN and CFI codes for OTC derivatives has been achieved through ongoing, collaborative work with market participants, regulators and other standards bodies. The DSB utilises a consultative change process, also specified within the UPI governance criteria described in section 3.2.2 *UPI Governance Criteria*, to allow for stakeholder input to shape the evolution of the service.

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<sup>26</sup> Cost recovery, which incorporates the DSB's financial sustainability margin, includes both recurring costs such as technology & operations, management, administration and external consultants as well as time-limited costs such as amortisation of the build costs.

In addition to the application of the cost recovery and RAND (unrestricted data and open access) principles, the DSB also ensures equal treatment of all users through utilisation of a common agreement, and the levy of user fees through annual contracts that require payment in advance. These principles aim to secure the financial sustainability of the DSB as well as provide parity and efficiency in delivery of service.

The current level of OTC ISIN, CFI and FISN generated by the DSB is designed to enable users to satisfy obligations under the European Regulations MiFID<sup>27</sup> II and MiFIR<sup>28</sup>, with the capability of an identification hierarchy to be introduced as required by industry, such as UPI. This hierarchical framework, with specific consideration of the UPI, was developed as part of the DSB core design following the recommendations from an ISO study group when defining the OTC ISIN. In addition, the CFI codes for OTC derivatives generated by the DSB assist industry's regulatory reporting needs, demonstrating the value of consistently generated identifiers and classification codes that can be efficiently consumed by all users of DSB data.

The DSB currently facilitates access for a broad spectrum of users, including credit institutions, small brokerages, private wealth management firms, boutique asset managers, large, multi-segment and/or multi-market trading venues, derivatives houses from across the buy and sell-sides and universal-bank style sell-side institutions with multiple business segments within a single group holding structure.

This consultation requesting feedback to help shape the DSB's service development has been made publicly available on the [DSB website](#)<sup>29</sup> and promoted globally via press release, as well as sent to the DSB's existing user community, comprising more than 4,100 individuals across 470 organizations. In addition, it has been shared with the regulatory community for onward distribution to each jurisdiction's market participants that will be required to submit UPIs as part of their regulatory reporting requirements. The DSB has also worked with major trade associations and participants in each of its industry forums to raise awareness of the consultation, its purpose and intended timelines.

Within the DSB existing service provision, access is provided to users on the following basis:

- **Power User:** programmatic connectivity for high volume creation and search services (paid usage)<sup>30</sup>
- **Standard User:** manual creation and search services for lower volume users, using [a web-front end](#) (paid usage)
- **Infrequent User:** manual creation and limited search services using [a web-front end](#) – targeted towards very low volume users, with a limit on the number of search results returned and an unlimited number of searches<sup>31</sup> (paid usage)

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<sup>27</sup> Markets in Financial Instruments Directive (MiFID)

<sup>28</sup> Markets in Financial Instruments (MiFIR)

<sup>29</sup> <https://www.anna-dsb.com/upi-fee-model-consultation-2021/>

<sup>30</sup> For UPI users, the fees to be charged for the differing categories of users will be the subject of a subsequent consultation. The DSB's charges policies for its existing service illustrates how the existing service recovers costs across the differing user categories: [https://www.anna-dsb.com/download/dsb-charges-policy\\_v5\\_2021\\_final/](https://www.anna-dsb.com/download/dsb-charges-policy_v5_2021_final/). The actual fee values are shown here: <https://www.anna-dsb.com/fees-rules-2021/>

<sup>31</sup> Following user consultation the DSB has implemented a model where up to 5 results are returned in response to a search by Registered Users and Infrequent Users when using the DSB's web-interface, and the full compendium of search results are returned to other types of DSB users. Note that all DSB users are able to access the full suite of DSB data by downloading the free to use files and subsequently utilizing the data in the users' own systems.

- Registered User: manual search services using [a web-front end](#), with a limit on the number of search results returned and an unlimited number of searches (free to use)

Irrespective of user type, all DSB users can 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.

In addition, to the user services listed above, all DSB users of the CFI, FISN and OTC ISIN service are able to download machine readable records and have free of cost access to (London) end of day files containing a list of all new OTC ISIN records created or updated that day.

Following DSB user feedback in response to the OTC ISIN service industry consultation conducted in 2020<sup>32</sup>, 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 for search-only on a paid basis, 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 to mitigate any internal technology constraints in downloading and consolidating the data.

The DSB's TAC set up a TAC Strategy Sub-Committee (TAC SSC) which reviews workflow and infrastructure related elements of the DSB's UPI implementation. The TAC SSC (which is comprised of both DSB and external stakeholders) has produced an interim report that made recommendations to the broader TAC on a range of UPI technology integration related topics, to enable broader discussion of the subject.

The interim report and associated proposals and assumptions will be discussed at a series of TAC SSC meetings in 2021, to enable the TAC SSC membership to review progress with respect to the findings of the interim report, the assumptions, recommendations, and questions that were raised in the document. The findings of the TAC SSC will be presented to the broader TAC and the final recommendations and any associated cost implications will be taken forward for review by the DSB Board for final review and decision making.

The DSB serves 70% of its users at no charge, and the remainder on a cost recovery basis, with user numbers having direct input into the primary fee variables. All DSB users can contribute directly to the service evolution via both an annual consultation process and two industry driven user forums – the PC and TAC.

DSB users can obtain the required OTC derivative identifier via several channels and use the record as part of their trade workflow, with more sophisticated users obtaining data via several means and others focusing on a single channel as best suited to the organization's commercial, strategic and tactical needs.

Some ways in which users will obtain the OTC derivative CFI, UPI and/or OTC ISIN include:

- from their counterparty
- from the execution platform on which the trade was done
- connect directly to the DSB (via an API, the web-front end, or download data)

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<sup>32</sup> <https://www.anna-dsb.com/download/2021-industry-consultation-paper/>

- from an intermediary – either a data or technology vendor

Experience with the OTC ISIN thus far indicates that many users have over time sought to connect directly to the DSB to supplement their reference data workflows for a variety of reasons, which include but are not limited to timeliness, efficiency, cost, etc.

Given the synergies between the DSB's existing service and the forthcoming UPI service, leveraging the existing staff, systems and processes as far as practicable, allows for strong application of the Lean governance criteria, described in section 3.2.2 *UPI Governance Criteria*.

#### 4.2 Alignment of the UPI with other internationally recognised data standards

The aim of seeking alignment is to allow both the DSB and DSB users to maintain a clear data hierarchy when utilizing each of the CFI, UPI, OTC ISIN, and FISN more easily and consistently.

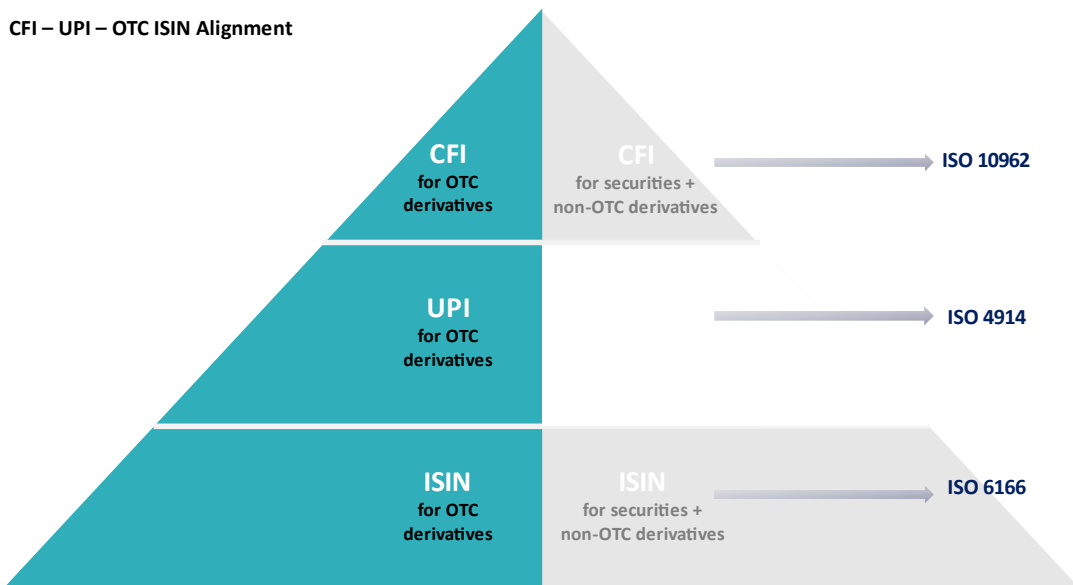
The DSB is responsible for serving the needs of OTC derivatives market participants through the allocation and distribution of OTC ISINs, the CFI code, and the FISN – all globally recognised and adopted ISO standards. Each standard has an individual purpose and complements each of the other standards. They are each respectively used for identifying, classifying, and describing financial instruments.

The UPI, currently being developed as an ISO standard (ISO/WD 4914), will sit within the suite of ISO standards provided by the DSB as a product level identifier, reflecting a subset of the data elements required for OTC ISIN. This means the UPI is anticipated to sit between the CFI and OTC ISIN representing an identification framework for OTC derivatives.

The UPI must therefore be fully consistent with the principles set out in the UPI Technical Guidance, which sets out technical requirements for a UPI Code and related reference data, and any further guidance provided by CPMI and IOSCO, or the FSB.

A key assumption is therefore that the data elements contained in each of the CFI, UPI, and OTC ISIN will remain aligned. The PC will work with the ROC to resolve any concerns with respect to alignment of the CFI, UPI and OTC ISIN. An overview of the expected alignment of each is set out below.

Note (a) that the CFI and ISIN exist for both OTC derivatives and other types of financial instruments, whilst the UPI applies only to OTC derivatives at this time, and (b) that the OTC ISIN is the most granular of the three standards in terms of the number and type of data elements that describe the identifier. The data elements describing the UPI can be considered to be mid-way between the granularity of the CFI and the OTC ISIN, with the UPI accompanied by CDE for some regulatory reporting purposes.



It is expected that all OTC derivatives that are reportable to regulators could have one or more of the CFI, UPI and OTC ISIN. The DSB’s product scope ensures that all traded OTC derivative instruments can have any combination of CFI, UPI and OTC ISINs required by the industry. Users will determine the specific identifiers that are created and therefore available for search and download.

More details on the definition of each of the CFI, UPI and OTC ISIN and the relationship between them, including a worked example setting out the differences between each can be found here<sup>33</sup> and here<sup>34</sup>.

### 4.3 Product definitions for the UPI

This assumption aims to build on the DSB’s existing practice and provide UPI users with insight into how product definitions are created, reviewed, and finalised by the DSB’s Product Committee (PC).

The DSB PC comprising a diverse spectrum of industry practitioners and regulators commenced a review of the alignment between the data elements contained in the OTC ISIN and the UPI as set out in the Technical Guidance Document published by CPMI-IOSCO. The aim of the preliminary review was to evaluate the data needs of the UPI and determine to what extent these were already held by the DSB when users were requesting an OTC ISIN and/or CFI code.

The PC has subsequently been engaged in communications first with the FSB and now the ROC as part of its ongoing UPI related work and will undertake a detailed review of the full suite of UPI product definitions (for both input and derived values) so that implementation aspects can be finalised. The PC is also examining any additional data sources that might be required to ensure global applicability of the identifier such as a sufficiently broad set of indices (across a range of asset classes, etc.). As with the TAC, any final recommendations will be made to the DSB Board for final review and decision making.

<sup>33</sup> <https://www.anna-dsb.com/2020/04/27/so-whats-in-the-cfi-upi-and-otc-isin/>

<sup>34</sup> <https://www.anna-dsb.com/upi-qa/>



#### 4.4 UPI Creation Estimates

This assumption aims to provide users with insight into the estimates of both the initial UPI creation rate, and the longer-term flow rate so that readers are able to use these as a basis to provide feedback on the principles set out in section 5 of this document.

The DSB estimates the number of UPIs required, as part of a series of inputs to determine the functional and non-functional requirements of the UPI service. Estimates are based on the minimum criteria set out in the UPI Technical Guidance document referenced earlier, in conjunction with the data elements used to define the OTC ISIN.

DSB estimates are based on an extract that uses the OTC ISIN records held by the DSB, with a sample of 27 products included, representing approximately 88% of the total number of OTC ISINs in the DSB database. The product templates<sup>35</sup> selected for this process focused on the 25 products with the most OTC ISINs however, to demonstrate breadth of coverage, the sample was extended to include at least 4 entries for each asset class.

The data provided in this section should be treated as a general guideline as utilisation of OTC ISIN on which the estimates below are based is a key but single indicator of UPI creation volumes. Eventual creation of the UPI will be determined by users' specific regulatory reporting requirements, and the precise UPI product templates that are agreed.

The following methodology was used to estimate the possible number of new UPIs each month:

- i. Define an assumed UPI attribute definition for each OTC ISIN template. For example: the FX Swap UPI is made up of Product Name, CFI Code, Notional Currency and Other Notional Currency.
- ii. Find the first creation date of any OTC ISIN with only those attributes. All other occurrences of that combination of attributes are ignored<sup>36</sup>. All additional OTC ISIN attributes (e.g. Expiry Date, Price Multiplier) are ignored.
- iii. Add each returned record to the total for that template/month.

It should be noted that Non-Standard and Basket templates were not included in the sample because the UPI equivalence for these products has yet to be determined – for example, OTC ISINs for products with a basket of underliers are based on individual basket entries, whereas UPIs may be based on a classification of the underlying – which would lead to a significantly reduced population. It is expected that as the specific UPI product definitions of each of these types of products are finalized, the DSB will be better positioned to evaluate the precise impact on UPI creation activities. It is worth noting at this time, such products do not constitute a substantive majority of instrument identifiers.

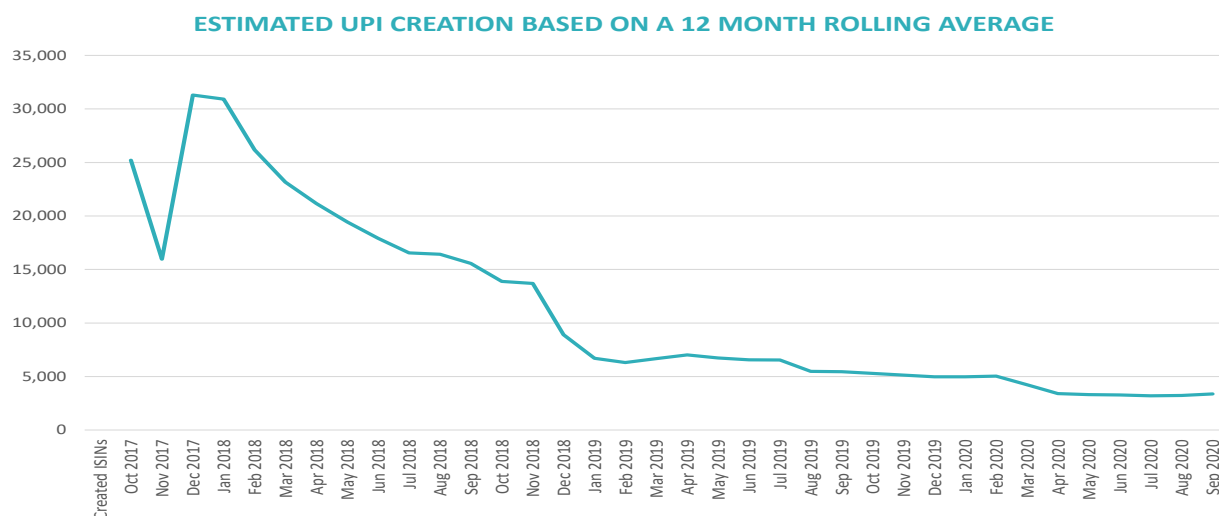
The chart below highlights the 12-month rolling average based on the methodology set out above. The date range starts at the point at which OTC ISIN generation commenced and shows the subsequent three-year period. As mentioned above, the OTC ISIN is being used as a working proxy in this instance as the instrument templates currently available to users covers the full range of OTC

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<sup>35</sup> A product template is the definition of the OTC derivative identifier and contains the list of input and derived fields agreed by the DSB PC as being the most appropriate and consistent description of the instrument or product being identified.

<sup>36</sup> Such occurrences arise because of the higher granularity of OTC ISIN compared to the UPI due to the additional data elements that define the OTC ISIN including, but not limited to, the tenor and expiry date.

derivatives CFI codes used by the market. A detailed breakdown of metrics are provided in section 6.1 of this paper.



#### 4.5 UPI Adoption Expectations

As above, this section seeks to provide readers with insight into the DSB’s understanding of the UPI adoption timelines so that the information can be utilized when considering responses to the consultation questions set out in section 5 of this note.

Regulatory insight from a diverse range of jurisdictions indicates that rules to support UPI reporting are either already in place or expected to be in place no later than mid to late 2022, with final adoption timelines subject to availability of the UPI service by the DSB, and market consultation. Regulators, in the main, note their expectation that all asset classes will be reportable via a “big bang” approach.

A closer examination of the available data shows that regulatory expectations (based on information from twelve jurisdictions including those in North America, Europe, Africa, and Asia) are that parties that need to report to TRs will directly access the DSB (via the means proposed below for consultation) to create, search for or download data files as part of the market participants’ regulatory reporting workflows.

A handful of regulators have noted that they intend to consult with the market in terms of the specific timing of implementation and also to determine whether the scope of instruments requiring a UPI should be extended beyond OTC derivatives, as well as whether UPI adoption should be phased by size of the reporting institution, such that larger institutions are in the first phase. In addition, some jurisdictions are in the processes of finalising their trade reporting infrastructure, while others have noted their intention to proceed with introduction of the UPI in a manner that aligns with other regional regulators.

There are a mix of views on the matter of reporting timelines, with most converging on a T+1 timeline, and the spectrum spanning from trade execution, to T+2. In addition, eight of the twelve jurisdictions that were approached noted that their rulesets were based on the premise of dual-sided reporting, such that both parties in the transaction would need access to the UPI reference data record generated by the DSB, regardless of whether it was directly or indirectly sourced.

## 5 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.

### 5.1 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?*

**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>37</sup>, and that the MIFID definition of 'venue traded' is broader than the EMIR<sup>38</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>39</sup>.

A similar scenario may occur in the UK, where on-venue (ToTV and uToTV<sup>40</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,

<sup>37</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-technical-standards-trade-repositories-under-emir-refit>

<sup>38</sup> European Market Infrastructure Regulation (EMIR)

<sup>39</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-mifir-reference-data-and-transaction-reporting>

<sup>40</sup> Traded on a Trading Venue (ToTV) and underlying Traded on a Trading Venue (uToTV) as defined by MiFID and MiFIR

- 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 4.1 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 5.2, 5.3, and 5.4 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>41</sup>, and thus a large number of individual users that 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

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<sup>41</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/>

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

## 5.2 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?***

**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 5.5.

### **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 3.2.2 *UPI Governance Criteria*, 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.

### 5.3 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?*

**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

#### 5.4 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?***

**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 4.4 *UPI Creation Estimates* 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 4.1 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>42</sup>

In consideration of the Cost governance criteria described in section 3.2.2 *UPI Governance Criteria*, 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.

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<sup>42</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.



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.

### 5.5 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 5.8 / *5.8 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>43</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>44</sup> (shared cost allocation policy to be determined based on Industry Consultation to occur in 2023)

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 3.2.2 *UPI Governance Criteria*, 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 3.2.2 *UPI Governance Criteria* 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.

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<sup>43</sup> The DSB is proposing a 4 year amortisation period for the UPI capex as explained in 5.8 Q8 – Capital Expenditure Amortisation Approach. This means the amortisation will occur in the years 2023-2026.

<sup>44</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.

## 5.6 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?**

### Supporting Information:

As part of on-boarding users onto the UPI platform, the DSB expects all UPI creators and API users<sup>45</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 5.7 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>46</sup>

The DSB considers the governance criteria of Lean, Cost and Economic Sustainability described in section 3.2.2 *UPI Governance Criteria* 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>45</sup> Application Programming Interface – i.e. users with automated access to the DSB's real-time services

<sup>46</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.

## 5.7 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?**

### 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 3.2.2 *UPI Governance Criteria*. 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>47</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 3.2.2 *UPI Governance Criteria*. 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>47</sup> See footnote 30

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.

## 5.8 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?**

### 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.

### **5.9 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.



## 6 Appendices

### 6.1 Appendix 1 – UPI Creation Estimates

DSB estimates are based on an extract that uses the OTC ISIN records held by the DSB, with a sample of 27 products included, representing approximately 88% of the total number of OTC ISINs in the DSB database. The templates selected for this process focused on the 25 products with the most OTC ISINs however, to demonstrate breadth of coverage, the sample was extended to include at least 4 entries for each asset class.

The data provided in this section should be treated as a general guideline as utilisation of OTC ISIN on which the estimates below are based is a key but single indicator of UPI creation volumes. Eventual creation of the UPI will be determined by users' specific regulatory reporting requirements, and as such not all OTC ISINs may result in an equivalent UPI being created, and similarly not all UPIs may result in the creation of an associated OTC ISIN.

The estimates in this section are for the period from 2 Oct 2017 (when the OTC ISIN service was launched) up to and including 30 September 2020.

Instrument	OTC ISINs Created	Estimated UPIs Created	UPI as % of OTC ISIN
<b>Commodities</b>			
Commodities.Forward.Forward	217,492	642	0.30%
Commodities.Option.Option	68,284	1,534	2.25%
Commodities.Swap.Swap	96,292	1,135	1.18%
Commodities.Multi_Exotic_Swap.Swap	20,584	690	3.35%
<b>Credit</b>			
Credit.Corporate.Swap	417,592	17,089	4.09%
Credit.Index.Swap	31,821	11,168	35.10%
Credit.Sovereign.Swap	32,098	1,689	5.26%
Credit.Total_Return_Swap.Swap	21,278	5,126	24.09%
<b>Equity</b>			
Equity.Portfolio_Swap.Swap	745,316	49,162	6.60%
Equity.Portfolio_Swap_Single_Name.Swap	1,084,430	34,833	3.21%
Equity.Price_Return_Basic_Performance_Single_Index.Swap	1,170,023	11,620	0.99%
Equity.Price_Return_Basic_Performance_Single_Name.Swap	12,481,763	93,705	0.75%
Equity.Single_Index.Option	1,009,643	2,325	0.23%
Equity.Single_Name.Option	1,916,011	28,830	1.50%
<b>FX</b>			
Foreign_Exchange.Barrier_Option.Option	294,840	1,798	0.61%
Foreign_Exchange.Forward.Forward	4,009,620	5,157	0.13%
Foreign_Exchange.FX_Swap.Swap	6,930,027	995	0.01%
Foreign_Exchange.NDF.Forward	700,208	1,371	0.20%
Foreign_Exchange.NDO.Option	327,944	1,241	0.38%
Foreign_Exchange.Vanilla_Option.Option	1,289,203	1,637	0.13%

Instrument	OTC ISINs Created	Estimated UPIs Created	UPI as % of OTC ISIN
<b>Rates</b>			
Rates.Basis.Swap	1,440,422	2,963	0.21%
Rates.Cross_Currency_Basis.Swap	684,919	4,567	0.67%
Rates.Cross_Currency_Fixed_Float.Swap	233,638	3,350	1.43%
Rates.Fixed_Float.Swap	4,680,244	4,586	0.10%
Rates.Fixed_Float_OIS.Swap	1,161,524	2,875	0.25%
Rates.FRA_Index.Forward	395,601	1,330	0.34%
Rates.Inflation_Swap.Swap	293,466	1,173	0.40%
<b>TOTAL</b>	<b>41,754,283</b>	<b>292,591</b>	<b>0.70%</b>

## 6.2 Appendix 2 – Summary of Consultation Questions for Industry

### Proposed Format for Industry Responses to the DSB Consultations:

- Consultation responses should be completed using the form below and emailed to [industry\\_consultation@anna-dsb.com](mailto:industry_consultation@anna-dsb.com)
- An option is provided for respondents to stipulate whether the response is to be treated as anonymous. Note that all responses are published on the DSB website and are not anonymized unless a specific request is made.
- Respondents are requested to state whether they concur with the assumptions and principles set out in the document, or propose alternate evidence driven considerations that they believe should be utilized instead and/or alongside the proposals set out in this paper.
- Respondents also can also provide any general comments in the final section of the response form provided at the end of this paper.
- The consultation enables the DSB to ensure that the DSB can work to reflect the best target solution sought by industry (within the governance framework of the utility).
- As with prior consultations, each organization is permitted a single response.
- Responses should include details of the type of organization responding to the consultation and its current user category to enable the DSB to analyse client needs in more detail and include anonymized statistics as part of the second consultation report.
- Responses must be received by 5pm UTC on Friday 5<sup>th</sup> March 2021.
- Two webinars to address consultation related queries will take place, with timings to suit market participants around the globe.
  - Register [here](#) for the webinar at 6am UTC<sup>48</sup> on Tuesday 2<sup>nd</sup> February 2021
  - Register [here](#) for the webinar at 1pm UTC<sup>49</sup> on Wednesday 3<sup>rd</sup> February 2021

### Respondent Details

<b>Name</b>	David Broadway
<b>Email Address</b>	David.Broadway@theia.org
<b>Company</b>	The Investment Association
<b>Country</b>	United Kingdom

<sup>48</sup> <https://anna-dsb-events.webex.com/anna-dsb-events/onstage/g.php?MTID=edbd6e1153a1ab0aaea0440c586e004f1> 6am GMT, 5pm Sydney, 3pm Tokyo, 2pm Singapore/Hong Kong

<sup>49</sup> <https://anna-dsb-events.webex.com/anna-dsb-events/onstage/g.php?MTID=e9f9f75c9ca5cc571460cd89d0e08c35b> 1pm GMT, 2pm CET, 8am EST, 5am PST

<b>Company Type</b>	Trade Association
<b>User Type</b>	Select Type
<b>Select if response should be anonymous</b>	<input type="checkbox"/>

Q#	Question	Response
1a	<p><b>Summary:</b> 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.</p> <p><b>Question 1a:</b> Do you concur with the UPI user connectivity assumptions set out in the supporting information?</p>	
1b	<p><b>Question 1b:</b> 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.</p>	

Q#	Question	Response
2a	<p><b>Summary:</b> 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.</p> <p><b>Question 2a:</b> Do you concur with the anticipated workflows presented in the supporting information?</p>	
2b	<p><b>Question 2b:</b> If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.</p>	
3a	<p><b>Summary:</b> 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.</p> <p><b>Question 3a:</b> 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?</p>	

Q#	Question	Response
3b	<p><b>Question 3b:</b> If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.</p>	
4	<p><b>Summary:</b> 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.</p> <p>In order to mitigate this risk, the DSB proposes to provide access to the daily data files with a two-day time-delay.</p> <p><b>Question 4:</b> 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?</p>	<p>In reality, those who are at the leading edge of trading new "products" are likely to be subscribers in any event; others are unlikely to be trading products that are so new that the UPI would be created only within the previous two days. It may nonetheless damage the perception of the DSB. I can see, for example, that on the rare occasions when a buy-side firm does need a very recently created UPI and can't get it from the counterparty, they will either delay reporting until they have it or report without (to demonstrate that they tried), let it reject and then resubmit once it's available - they are likely to then complain about the DSB service (ignoring all the really good work that they don't really see or appreciate).</p> <p>Certainly, anything more than a nominal charge, would be difficult for firms to justify for the minimal level of reporting breaches it would save.</p>
5	<p><b>Summary:</b> 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.</p> <p>The policy will be the subject of controls that will be validated through the DSB's third-party assurance programme.</p> <p>Given the start-up nature of the UPI service, the DSB is mindful that a large initial allocation of overheads against</p>	

Q#	Question	Response
	<p>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.</p> <p>Specifically, the DSB proposes that:</p> <ul style="list-style-type: none"> <li>- The initial UPI build costs be amortised as per existing DSB policy (as consulted in section 5.8 / <i>5.8 Capital Expenditure Amortisation Approach</i>), 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</li> <li>- 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</li> </ul> <p><b>Question 5:</b> Do you agree with the DSB’s proposed cost allocation policy for the DSB’s costs?</p>	
6	<p><b>Summary:</b> 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</p>	

Q#	Question	Response
	<p>for the UPI User Agreement is the Gregorian calendar year.</p> <p>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.</p> <p><b>Question 6:</b> 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?</p>	
7	<p><b>Summary:</b> 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.</p> <p>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.</p> <p><b>Question 7:</b> Do you agree with the DSB’s approach to invoicing users for its services?</p>	



Q#	Question	Response
8	<p><b>Summary:</b> 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.</p> <p>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.</p> <p><b>Question 8:</b> 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?</p>	
9	<p>Please use this space for any other comments you wish to provide.</p>	