

ANNA-DSB Product Committee

Response to Fee Model Consultation Paper

1.1 Overview

1.1.1 Regulatory usage of ISIN

MIFID requires the use of ISIN identifier for derivatives for a number of MIFID related reporting obligations, including Order Record Keeping, Transaction Reporting and Reference Data reporting.

The requirement for ISIN for derivatives is an obligation that applies to all market participants engaging in derivative trading, including venues, sell-side, buy-side, APAs and any other market participant regulated by the MIFID regime.

Although the scope of ISIN is for instruments traded on a trading venue, investment firm trading a TOTV instrument bilaterally must obtain an ISIN to satisfy some or all of the above reporting obligations.

1.1.2 Non-regulatory usage of ISIN

We think that some vendors will connect to the DSB in read-only mode, either as market data solution providers or offering hosted hub connectivity to the DSB. Some vendors will repackage and sell the data as a commercial product.

Additionally, some organizations will connect to the DSB (read-only) to retrieve the reference data associated with the ISIN in order to be able to consume and understand pre and post trade reporting data made public using the ISIN code.

1.2 Feedback summary

We maintain that any cost-recovery charge should be directly correlated to usage and the associated costs to the DSB.

We believe that the cost to the DSB of responding to an ISIN request is the same whether the ISIN already exists or is generated for the first time.

Therefore we think that costs should be applied equally to all clients of the DSB, regulated and non-regulated, ISIN generators and ISIN consumers.

1.2.1 Fee capping

The proposed fees for ISIN creators are based on certain, undisclosed assumptions e.g. the 6M annual cost of the DSB. We would like assurances that a pre-agreed cap will be applied on the fees and a guarantee that ANNA will bear any cost exceeding the cap.

1.2.2 Cost transparency

We do not believe there are sufficiently transparent checks and balances in place to ensure that the commercial model of the DSB is a cost recovery only model. We will be progressing this with ANNA directly via our trade Association. We intend to continue to proactively engage with these consultations while these matters are progressed and resolved in parallel.

1.3 Response to questions

Q1: Do you agree that there should be no restriction regarding the organization types able to consume the ISINs and their associated reference data at no charge? If not, please explain your reasoning and provide evidence where possible.

We do not agree. We believe that any cost-recovery charge should be correlated to usage and the associated costs to the DSB, including recovering any costs associated with querying the ISIN archive and retrieval of the associated reference data.

We maintain that the cost to the DSB of responding to an ISIN request is the same whether the ISIN already existed or is generated for the first time.

Therefore we think that costs should be apply equally to all consumers of DSB, i.e. read-only and read-write access should bear the same charge.

Q2: There is a marginal cost associated with registration and onboarding a new organization for access to the DSB. Do you agree that organizations registering with the DSB should not be charged any fee for data access or onboarding? If not, please suggest an alternative approach that is consistent with the principle of 'reasonable cost' access to ISINs for OTC derivatives.

We do not agree. We think that organizations that require access to the DSB should bear any cost associated with that registration, otherwise, that cost will be passed on to other users of the DSB.

Registration costs should be made public and transparent as should any other DSB costs.

Q3: Do you agree with the DSB estimate of 40 for the number of organizations that will want to create ISINs? If not, please explain an alternative estimate and provide evidence to support your answer.

We question this figure. The number of MTFs and RMs is not in itself an indication as many of these venues will not be trading derivatives. A more accurate number may be derived from the venues that responded to the DSB request for information. Also, the SI regime was postponed to September 2018 and as such it is very unclear how many banks will be subscribing to the DSB on day 1.

The actual final number could have significant implication to the cost to each organization. For example if there are only 10 organizations, the cost to each could be 4 times higher. We would like assurances that a pre-agreed cap will be applied on the fees and a guarantee that ANNA will bear any cost exceeding the cap.

Q4: Do you agree with the DSB estimate of 50 for the number of organizations that will want to connect to the service via the FIX network? If not, please provide evidence that supports a different estimate.

Based on our response to question 3, we have no way to quantify the number. The actual final number could have significant implication to the cost to each organization. For example if there are only 10 organizations, the cost to each could be 5 times higher.

Q5: Do you agree with using 2m as a predictive estimate for the number of ISINs the DSB expects to create in a 12-month period? If not, please explain why and provide any necessary evidence or examples to support your response.

We don't agree that using SDR data to estimate the number of ISINs is appropriate because SDR data is applied at a trade level whereas the reference data and order record keeping obligations are *at a quote and trade* level. Therefore the actual number of ISIN could be much higher.

We calculate the possible number of ISINs, including broken dated tenors:

- Total S (Swaps) H (Options) CFI combinations – 10,339
- Business days over the next 30 years – 7,826
- Unique Effective date x Maturity date combinations – 30,619,225
- Assuming 10 currencies
- Total number of possible ISIN based on the above – 3,165,721,672,750

Q6: Given the potential disincentive to be the first requestor to create a given ISIN, do you agree that using the ISIN reporting obligation is a sensible basis for allocating costs (and therefore fees) amongst the regulated entities that have an ISIN reporting obligation? If not, please explain why and suggest an alternative approach and evidence why that is more appropriate.

We agree that if the fee model is based on ISIN-generator-pays there could be a major disincentive to be the first requestor. We also believe that the cost to the DSB of responding to an ISIN request is the same whether the ISIN already existed or is generated for the first time.

As noted in the introduction, MIFID requires the use of ISIN identifier for derivatives for a number of reporting obligations in addition to reference data, including: Order Record Keeping, Transaction Reporting, and Best Execution.

Therefore we think that costs should be applied equally to all clients of the DSB, regulated and non-regulated, ISIN generators and ISIN consumers.

Q7: Do you foresee any challenges with using the number of OTC derivative instruments reported under RTS23 as the mechanism to collect the relevant data to allow the calculation to take place? If not, please explain why and suggest an alternative approach and evidence why that is more appropriate.

As noted in the introduction, MIFID requires the use of ISIN identifier for derivatives for a number of reporting obligations in addition to reference data, including: Order Record Keeping, Transaction Reporting, and Best Execution.

Therefore the use of RTS 23 reports as the mechanism for calculation is flawed and will not represent the varied usage of the DSB by regulated entities.

Additionally, there will be other, non-regulatory usage for the ISINs.

We support a model based on the volume of write and read requests to the DSB. This can be simplified by creating volume bands.

Q8: Is there another group of organizations that will interact with the DSB and should be taken into account when constructing the fee model? If so, please describe them, how their usage may differ from that already described, and what their potential impact might be on the service.

Yes, organisations will require the reference data associated with the ISIN (read) in order to be able to consume and understand pre and post trade reporting data made public using the ISIN code.

We believe that all consumers of the ISIN data should share the costs.

Q9: Having read about the proposed fee model in the above section and the various fee models considered in Section 7 below, do you agree that the proposed model offers a fair and equitable approach to fees for the numbering agency function of the DSB? If not, please explain your reasons. If possible, suggest improvements on the proposed model.

We believe the proposed fee model is unfair as it apportions most of the costs to a small group of market participants (ISIN creators), whereas other ISIN users are getting a free service.

Q10: Do you think there may be practical difficulties in executing the proposed model? If so, please explain and, if possible, suggest alternative solutions to these challenges.

Yes, we consider the approach that puts all the financial cost on to one set of market participants to be unbalanced and discriminatory against those participants. All users of ISINs should share the cost of this service.

Q11: What other fee models should the DSB consider as part of its deliberations? Please provide an explanation in the form of the examples provided in this paper and evidence the impact on users where possible.

We would like to see a model that is balanced, fair and non-discriminatory across all potential users of the DSB utility and data.

As such we support a model based on the volume of write and read requests to the DSB, be it via a FIX API, file download, or any other method. We would agree that one-off website queries could be free.

If the DSB incur additional costs to set up and maintain FIX infrastructure then that specific cost should be shared by all FIX users.

This model can be simplified by creating volume bands.

Q12: What additional effects might the presence of intermediary vendors have on the fee model of the DSB? Please provide examples and evidence where possible.

We think that vendors will connect to the DSB either as market data solution provider or as a hosted hub connectivity to the DSB, mostly in the read-only capacity. We want to reiterate that the costs should be equally divided by all entities using the DSB, irrespective of whether they are ISIN generators or ISIN consumers.