

ANNA-DSB Product Committee

Response to Fee Model Consultation Paper

1.1 Overview

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

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, in most cases, obtain an ISIN to satisfy the above reporting obligation.

In terms of the charging structure proposed by the DSB, we are not comfortable with the fee structure that has been proposed. In fact, we would have a preference for a CUSIP-type model where users pay a flat fee if they are consuming ISINs, irrespective of whether they are generating them or otherwise.

With regards to the overall costs to the DSB, we would like to understand how the total cost figure of €6m is derived. It is important to recall that any cost-recovery charge should be directly correlated to usage and the associated costs to the DSB.

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.

No, we are not comfortable with the fee structure that has been proposed. In fact, we would have a preference for a CUSIP-type model where users pay a flat fee if they are consuming ISINs, irrespective of whether they are generating them or otherwise.

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 don't agree. On-boarding fees should be part of a flat fee for ISIN usage but should not be given out for free where a customer is not intent on using ISINs on an ongoing basis. Registration costs should be made public and transparent in line with 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.

Whilst we have no way to quantify the number, at least in the initial phase of MiFID II implementation this number feels too low. Crucially however, the exact number will depend on the definition of what is traded on a trading venue (TOTV). If the burden of reporting falls on venues only (by limiting TOTV to an extremely narrow list of instruments that are exactly identical, by rate and maturity, to on-venue instruments), the number of entities requiring ISINs would be restricted to trading venues and thus be smaller. If, however, the policy objectives of MiFID are adhered to and transparency for derivatives traded bilaterally is also desired (resulting in a wider TOTV definition), SIs and other market participants would likely have to sign up to the DSB for ISINs as well, meaning a greater number of firms might need to sign up to create ISINs.

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.

We have no way to quantify the number.

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 the reference data and order record keeping obligations are applied at a quote, not trade level.

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, we would have a preference for a CUSIP-type model where users pay a flat fee if they are consuming ISINs, irrespective of whether they are generating them or otherwise.

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.

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 relies on too few market participants to bear to cost of the ISIN issuance process. Instead we prefer for a CUSIP-type model where users pay a flat fee if they are consuming ISINs, irrespective of whether they are generating them or otherwise.

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.

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.

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.