



Derivatives Service Bureau

Fee Model

Consultation Paper 2

2 May 2017

1 Executive Summary

- European legislation MiFID II/MiFIR & MAR have specified the use of ISINs for all the instruments in-scope of the regulation, including OTC derivatives tradeable on an EU trading venue or with an underlying tradeable on an EU trading venue
- ANNA, after discussions with the industry and ISO, is setting up the Derivatives Service Bureau (DSB) to assign global, permanent and timely ISINs to OTC derivatives
- The DSB completed the first consultation on the fee model and published the final report on 28 February 2017. The report can be found at <http://www.anna-web.org/dsb-consultation-fee-model/>
- This consultation paper details the final fee model proposal and includes additional information on fund redistribution and costs
- The DSB implementation schedule includes the following key milestones:
 - Production – 2 October 2017;
 - Start of MiFID II obligations – 3 January 2018.
- This second and final Fee Model consultation will close on 31 May 2017. Please send responses to the DSB Secretariat at secretariat@anna-dsb.com
- The DSB will publish responses received and the final report on 28 June 2017

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2 Introduction

2.1 Background

The Association of National Numbering Agencies (“ANNA”) has founded the Derivatives Service Bureau (DSB) for the allocation and maintenance of International Securities Identification Numbers (ISINs) for OTC derivatives. The allocation of ISINs to these instruments, as well as the provision of access to the 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 ISINs under contract with the International Organization for Standardization (ISO) through strict rules over business and technical operations, including limiting user fees to cost recovery. There is discretion regarding how the fees may be structured and applied to meet these rules, and the fee structure is the primary focus of this consultation.

The European Union’s MiFID II/MiFIR regulations mandate the use of ISINs to identify certain OTC derivatives, starting on 3 January 2018. The affected OTC derivatives include those tradeable on a European trading venue (ToTV) and those with underlying asset(s) tradeable on a European trading venue (uToTV). The reporting obligations for these instruments affect trading venues and systematic internalisers (SIs).

2.2 DSB Consultation Approach

The DSB is consulting with the industry to provide transparency to its decision-making processes by sharing its considerations and inviting industry participation through feedback and commentary on its prospective decisions.

This second industry consultation describes the DSB’s final proposal for a fee model for recovering the cost of the numbering agency services of the DSB. It also covers the redistribution of any excess funds the DSB might generate.

2.3 Organization of this report and feedback to the consultation

This paper is organized in sections that address key aspects of the fee model of the DSB:

- Section 3: Key principles of the fee model
- Section 4: Cost basis of the DSB
- Section 5: Fee Model
- Section 6: Excess Revenue
- Section 7: Questions Summary

Questions to the industry are included in the relevant sections. In addition to responses to these questions, more general comments on the fee model are invited.

The DSB also welcomes feedback on the usability of this document. Specifically, we would like to know if the presentation has been sufficiently clear and understandable, as well as whether the level of detail has been adequate to support respondents' considerations and responses. If there are additional details that would be helpful, we would be interested to receive that information from respondents to this consultation.

Responses should be sent to the secretariat at secretariat@anna-dsb.com. The response period closes at end-of-day on 31 May 2017.

All responses will be published and attributed on the consultation page of the ANNA website. If a respondent wishes to remain anonymous, please inform the secretariat when responding and kindly do not include identifying information in the text of responses.

Upon closure of the comment period, the responses will be studied by the DSB management and the DSB Board of Directors. A final document will be published on 28 June 2017.

3 Principles

3.1 Cost Recovery

The DSB, as part of meeting its ISO obligations, will provide numbering agency services on a cost-recovery basis.

From the DSB's perspective, this means that the revenues must be sufficient to ensure that the numbering agency has the financial viability to meet its continuing obligation to provide these services. From the user perspective, it means that the payment for these services does not profit the owners of the utility beyond its maintenance as a financially viable entity. Furthermore, the funding model needs to be sustainable, which includes the need to be efficient and reliable.

3.2 Unrestricted Data

It is the intention of the DSB that no data associated with the definition of an ISIN issued by the DSB will have licensing restrictions dictating usage or distribution.

This principle is only possible if none of the attributes defining the ISIN for OTC derivatives require proprietary data licensed by third parties. If the DSB Product Committee (<http://www.anna-web.org/dsb-product-committee/>) determines that there is no viable alternative to the use of licensed or restricted data in a product definition, the DSB will review the impact to its Unrestricted Data policy at that time, taking into account the specific products and attributes that are impacted by the incorporation of licensed or restricted data in the product definitions.

3.3 Open Access

Access to the DSB archive for consumption of OTC derivative ISINs and associated reference data will be available to all organizations and users.

Registration will be required to use the DSB services, including access to the ISIN archive.

All registered users will be able to use the website to search and retrieve ISINs and their associated reference data on a manual basis.

3.4 Payment in Advance

To the extent possible, the DSB will levy fees through annual contracts that require payment in advance.

This advance yearly commitment offers the DSB more clarity in aligning fee levels with cost recovery. For the users, it provides improved ability to forecast their costs for utilising ISIN services.

4 Cost Basis

This section describes the various costs that form the basis of the DSB cost recovery model. As the numbering agency function is expected to be self-sustaining while operating on a cost-recovery basis, the total overhead of supporting services, technology and capital are included in this calculation.

It should be noted that the requirement for cost-recovery financial operation makes the need for prudent reserves particularly acute because there is no natural funding mechanism to address emergency or short-term funding needs other than procurement of costly short-term capital or unscheduled changes to user fees. To avoid either of these, the inclusion of a prudent reserve in the cost basis is a form of risk management that benefits the users as well as protects the numbering utility.

The costs are separated into two sections: Start-up costs and Operational Costs. Both are described in the sections below.

4.1 DSB Start-Up Costs

The total cost of setting up the DSB in its numbering agency function through 2016 and to the end of Q3 2017 is forecast to be €5.2m, plus an additional €600K held as contingency.

This figure, which includes a 20% margin for financial sustainability, can be broken down as:

Category	Description	Amount
Technology & Operations	Build and test of the DSB technology stack, including operation of the test environments	€3,022K
Management	Senior management team including MD, MSP management team and CFO	€1,132K
External consultants	External oversight and legal, professional & communication	€665K
Administration	Administrative costs and overheads such as office space, travel and expenses and administrative support functions	€341K
Financing costs	Loan interest costs	€93K
Contingency	A contingency fund to cover any extraordinary costs or charges the DSB may incur during the build phase. For example, if there is a request by industry for the DSB to implement ToTV / uToTV functionality into the core DSB service within the cost-recovery mandate.	€600K

4.2 DSB Operational Costs

The annual budgeted cost for operating the DSB was previously estimated at €6m. The latest more detailed projections are €6,066K and incorporate the additional service and functionality requested by industry via consultation feedback on the following topics:

- Support the use of ISDA taxonomy and FpML codeset in addition to the original ISO taxonomy and codeset
- Implement 24 x 6 support hours

Additionally, the DSB proposes to amortize the start-up cost of ~€5.8m (with contingency) over 4 years, in order to avoid an unduly high cost in the first year compared to the following years and so to have a fair allocation of the start-up costs between first movers and users that join in subsequent years. This equates to an additional ~€1.5m pa during the first 4 years.

Finally, the DSB proposes a contingency fund of €750K in the first few years of operation whilst usage patterns and the cost base is stabilizing. This provides the flexibility to respond to developments without needing to change user fees during the middle of the subscription period or seek additional external funding.

Therefore, the total cost-base in the first year of operation is projected to be €8.6m. The full set of costs, which include a 20% margin for financial sustainability, are broken down as below:

Category (Recurring)	Description	Amount
Technology & Operations	Operation of the DSB platform including technical and asset class support.	€4,103K
Management	Senior management team including MD, MSP management team and CFO	€967K
Administration	Administrative costs and overheads such as office space, travel and expenses and administrative support functions	€520K
External consultants	External oversight and legal, professional & communication	€476K
Total		€6,066

Category (Time-limited)	Description	Amount
Startup costs	Amortization of start-up costs over the first 4 years	€1,463K
Financing costs	Start-up loan interest costs repaid over 4 years	€320K
Contingency	An annual contingency fund to cover unplanned costs during the initial few years of operation. For example, if industry were to request the DSB to provide additional services within the cost-recovery mandate.	€750K
Total		€2,533K

It should be noted that these costs have been derived on the assumption of 200 paid-for users, with half connecting via FIX and half being heavy users of the web-site, including file download.

The cost base of the DSB has been scoped to handle 100 FIX users and 100 heavy web users, with no need to increase capacity. Additional users connecting via FIX are projected to require capacity increases to the tune of €12K pa per additional user. Additional heavy web-site / file-down users are projected to increase annual costs by €4K pa per additional user.

Q1: Do you agree that 4 years is an appropriate time frame to amortize the start-up costs? Please provide any relevant evidence to support your answer.

Q2: Do you agree with the proposal to create a contingency fund of €750K to cover unplanned costs during the initial few years of operation? If not, please suggest alternative approaches to financial risk management in a cost-recovery construct.

4.3 Cost Governance

In adherence with ISO obligations, the DSB is obliged to submit an annual report confirming compliance with cost recovery principles. ISO is entitled to request an audit on services, including fees charged, at any time.

In addition, the DSB Board will engage an independent consultancy to perform an ongoing review of the DSB activities, including its costs and cost management. The fees for such an engagement are included in the 'External consultants' cost category.

5 Fee Model

5.1 Description

Several aspects of the proposed model are unchanged from the previous consultation paper, including:

- The proposed user categories of Registered User, Standard User and Power User
- Registered Users will not be required to pay a fee
- Power Users and Standard Users will be required to pay an annual up-front subscription

However, following additional industry feedback, two changes are proposed:

1. Further simplify the fee model by removing the concept of single-asset vs multi-asset class user
2. Provide all user categories free access to the full database archive at close of business¹.

The table below illustrates the latest proposed fee model:

User	Registered	Standard	Power
Web Access			
Real-time Search for ISINs by identifier	✓	✓	✓
Real-time Search for ISINs by attributes	✓	✓	✓
Maximum number of records returned per search	5	50	500
Create new ISINs	✗	✓	✓
File Download			
Access to full archive (end of day T-1)	✓	✓	✓
FIX Access			
Create a new ISIN	✗	✗	✓
Search for Attributes by ISIN	✗	✗	✓
Subscribe to today's ISINs	✗	✗	✓

Q3: Do you agree with the proposal to simplify the fee model by eliminating the differentiation between users requiring access to a single asset class vs multiple asset classes? Please provide details and any relevant evidence to support your answer.

Q4: Do you agree with the proposal to provide the full database archive to Registered Users (at no charge), in addition to the paid user categories? Please provide details and any relevant evidence to support your answer.

¹ Subject to acceptable use policy

5.2 Payment Structure

The key aspects of the payment structure for this fee model are:

- Standard Users, are anticipated to put a significantly lower burden on the technology and support infrastructure compared to Power Users and therefore the DSB proposes to charge a correspondingly smaller portion of the overall fees to this group. The ratio used in this proposed model is 3:1

$$\text{Standard User Fee} = \frac{\text{Total Cost}}{(\#\text{Standard Users} + 3 \times \#\text{Power Users})}$$

- Power Users fees therefore work out to be:

$$\text{Power User Fee} = 3 \times \text{Standard User Fee}$$

Q5: Do you agree with using 3 as the ratio of fees between Power Users and Standard Users? If not, please provide details and any relevant evidence to support your suggested ratio.

5.3 2018 Fee Definition Timetable

The timelines for finalisation the fee amount will be made available on the below basis:

3 July 2017	User Agreement available for execution
1 Sep 2017	Deadline for number of executed contracts used to define the fee model variables
8 Sep 2017	Fee amounts published based on the numbers for each of the model variables
11 Sep 2017	Invoices distributed to users
9 Oct 2017	Payment received by DSB

Q6: Are there any specific challenges you will face meeting the contract execution and payment deadlines stipulated above? Please provide details.

5.4 Worked Examples

The table below details a few scenarios, from the base case scenario and an increased user base scenario.

Finally, the table also shows the effect on DSB revenues of 100 late joiners signing after September 2017. The assumption of 100 late joiners is arbitrary, given the lack of data, but the intention is to illustrate the impact on the DSB revenue surplus based on these assumptions.

	User	Registered	Standard	Power
DSB Feature	All	All	All	All
Base Case Scenario				
Number of Users	1000	100	100	
Fee per organization	€0K	€21K	€64K	
Total revenue per user group	€0K	€2,150K	€6,450K	
	<i>Total Revenue</i>			€8,600K
Increased User Base Scenario				
Number of Users	1000	200	200	
Fee per organization	€0K	€13K	€38K	
Total revenue per user group	€0K	€2,550K	€7,650K	
	<i>Total Revenue</i>			€10,200K
Late (post 1 Sep 2017) Joiners				
Number of Late Users joining post 1 Sep 2017	0	50	50	
Fee per organization	€0K	€13K	€38K	
Cost per organization		€4K	€12K	
Pro-rata factor		50%	50%	
Total surplus per user group	€0K	€219K	€656K	
	<i>Total Surplus</i>			€875K

Key points to note:

- In both the Base Case Scenario and the Increased User Base Scenario, the projected revenue will equal the projected costs, before considering the impact of post 1 Sep 2017 joiners
- A doubling of user numbers (from the base case scenario to the Increased User Base Scenario) is projected to increase DSB costs by less than 20% due to the pervasive use of automated processes
- End users will pay a pro-rata share of the fees
- Any surplus resulting from the revenue provided by late joiners will be redistributed to the user base (see Section 6 for details)

5.5 Intermediary Effect

Intermediaries that act as data aggregators or represent multiple entities will affect the costs borne by direct Power and Standard Users of the DSB.

Intermediaries will be required to identify and categorize each user for which the intermediary is facilitating access to the DSB numbering agency function. Each user will sign the DSB User Agreement and pay their appropriate fee.

Additionally, if the intermediary plans to use the data for their own purposes, they will pay a separate fee in the same manner as any other user. The full details will be provided in the User Agreement.

This approach eliminates any cost advantage in DSB fees to connecting to the DSB via an intermediary or directly.

6 Excess Revenue

6.1 Principles

The following principles will guide the use of any excess revenue received by the DSB:

- 100% of the excess revenue will be passed back to the user base
- The mechanism used to address any excess revenues should be simple and transparent

6.2 Proposal

Excess revenue will be used to reduce the fees of the DSB for the following year and will form part of the variables set one month before the start of the annual subscription period

6.3 Worked Example

Using the example surplus from section 5.4 (Post 01 Sep 2017 Joiners):

- The surplus is €875K (year 1)
- Assume the total cost of the DSB fee is €8.6m (year 2) as per the Base Case scenario. Subtracting the surplus carried forward implies the total cost to be covered in the year 2 is €7.7m
- Therefore, for the year 2, assuming the base case scenario of users, the fees will be reduced by 10%:
 - Power Users = **€58K** (100 Users)
 - Standard Users = **€19K** (100 Users)

Q7: Do you agree with the principle of using excess revenue to reduce the subsequent year's fees? If not, please explain your reasoning and provide industry examples to support your view.

7 Questions Summary

Q1: Do you agree that 4 years is an appropriate time frame to amortize the start-up costs? Please provide any relevant evidence to support your answer.

Q2: Do you agree with the proposal to create a contingency fund of €750K to cover unplanned costs during the initial few years of operation? If not, please suggest alternative approaches to financial risk management in a cost-recovery construct.

Q3: Do you agree with the proposal to simplify the fee model by eliminating the differentiation between users requiring access to a single asset class vs multiple asset classes? Please provide details and any relevant evidence to support your answer.

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Q5: Do you agree with using 3 as the ratio of fees between Power Users and Standard Users? If not, please provide details and any relevant evidence to support your suggested ratio.

Q6: Are there any specific challenges you will face meeting the contract execution and payment deadlines stipulated above? Please provide details.

Q7: Do you agree with the principle of using excess revenue to reduce the subsequent year's fees? If not, please explain your reasoning and provide industry examples to support your view.