Text deletions are to protect the requested anonymity of the respondent.

ANNA-DSB Product Committee

Response to Consultation Paper Phase 1

1.1 Background

[redacted]
"xxxx" is a strong advocate of global data harmonization, [redacted] to promote the important role of global standards in data quality and the efficiency of regulatory requirements while at the same time improving business processes. To that effect, we have been a [redacted] participant in the ISDA Symbology group, later to become the ISO SG2 working group. [redacted].

1.2 Document structure

The first section is a high level response to the strategic approach taken by the DSB, and in particular the use of RTS 23 data model. The second section highlights specific issues with the approach and also contains responses to some specific consultation questions.

1.3 Overview

We strongly support the work and recommendations of the SG2 and suggest that the core principles of the SG2 recommendations should be adhered to and maintained. We are concerned by the DSB change of approach and shift away from the agreed, SG2 model.

1.3.1 Overall objectives of ISIN

We maintain that identification and classification of financial instruments, and derivatives in particular, should be applied at a level, or levels that will be useful for, and satisfy both regulatory obligations and industry needs and objectives. The risk of ignoring industry needs and defining identifiers specifically to satisfy regulatory obligations is that an additional and duplicate mapping process is then required by each market participant to transform their own internal and industry codes and data models to regulatory ones, a process that will have its own additional costs and operational risks. And since that mapping is not clearly defined and standardized and could be arbitrary, it has the potential to become the weak point in the reference data chain and will result in errors and significant deterioration of overall data quality.

1.3.2 Use of ISDA taxonomy

We therefore strongly recommend that ISIN for derivatives should be applied using ISDA instrument taxonomy, data models and definitions rather than regulatory ones. There is compelling rationale to support this in that ISDA FpML is the only recognized data model used globally by the whole industry in every part of the trade life cycle, from pre-trade and post-trade to operation, confirmation and settlement. [redacted].

Given that MIFID 2 text only mandates the use of ISIN and does not enforce a specific level of definition for the ISIN, we suggest that it is the role of ISO and ANNA to define ISIN in accordance with their mission statements, policies, operating model and allocation rules. We are concerned that RTS 23 taxonomy is not well suited for the purpose of ISIN definition, as it does not reflect accurately the way in which derivatives are defined, negotiated, traded and settled across the industry. As a consequence, in many cases, dissimilar instruments could be grouped together and shared the same ISIN, whereas many identical instruments could be assigned different ISINs. The result is that the goals and objectives of both the industry and the regulators would not be achieved, with the most substantial impact on transparency as clients will not have the ability to compare like with like. In addition to these issues, creating an ISIN to satisfy RTS 23 using RTS 23 fields would be an

unnecessary duplication of data, because reporting firms have to send the ISIN as well as all the additional data fields that were used to construct the ISIN.

1.3.4 ToTV

With respect to Trading on a Trading venue (TOTV), we strongly recommend that a TOTV flag should be added as a property of the instrument and returned by the DSB to requesters as part of the instrument data set when generating or querying an ISIN. [redacted].

1.4 Specific problem areas

1.4.1 Rate / strike

Tags associated with Rate or Strike represents in most derivatives the price of the instrument, and therefore should not be included in the instrument definitions. This is particularly acute in interest rate swaps traded on a venue, where the rate (price) may change a number of times a second. If the rate is included the outcome would be: 1. Very high number of ISINs (many millions a day) 2. ISIN will be unusable pre-trade as the ISIN would change a number of times a second 3. ISIN would not be useable for Transparency because every quote and trade would have a different ISIN

1.4.2 MAC swaps

Market Agreed Swaps (MAC) are the exception to the above that illustrate the complexity of the derivatives universe and the need for precise calibration for ISIN definition. Unlike a standard vanilla swap, where rate is the price, a MAC swap have a pre-agreed coupon (rate) and the price of the swap is the current value (NPV) in cash. A 10 year MAC swap is typically traded with rates between 0% to 5% with 0.25% increments. If ISIN is generated using RTS 23, then a 10 year vanilla swap traded on a rate of 1.25% will have the same ISIN as a 10 year 5% MAC swap traded on 75k NPV. This would be meaningless for both transparency and market abuse purposes.

1.4.3 Maturity Date

Derivatives are typically traded and priced on a tenor basis. Incorporating maturity date into the ISIN will result in a new ISIN every day for the same instrument and would make the ISIN unusable for industry purposes. Worse still, RTS 23 requires both maturity date (field 24) and tenor (field 41). The combination of both fields means that every combination of maturity date and tenor will have a unique ISIN. Swaps with the same maturity date traded on different days will have different ISINs and at the same time, swaps with the same tenor traded at different days will have different ISINs. Some examples:

1 A 10Y vanilla swap traded on 30/11/16 and maturing on 30/11/26 will have an ISIN e.g. EZ0001 (maturity date = 30/11/26, tenor = 10 YEAR)
2 A broken dated 9Y+ swap traded on the next day 01/12/16 and matures on the same day 30/11/26 will have a different ISIN e.g. EZ0002 (maturity date = 30/11/26, tenor = 9 YEAR 11 MTHS 29 DAYS)
3 A 5Y vanilla swap traded 5 years later on 30/11/21 and maturing on the same date 30/11/26 will have a different ISIN e.g. EZ0003 (maturity date = 30/11/26, tenor = 5 YEAR)
4 A forward starting 5Y swap traded 5 on the same day on 30/11/16 and maturing on the same date 30/11/26 will have the same ISIN as the 5Y swap not the same as the 10Y swap i.e. EZ0003 (maturity date = 30/11/26, tenor = 5 YEAR)
5 A 10Y vanilla swap traded on 1/12/16 and maturing on 1/12/2026 will have a different ISIN to the exact same 10 year vanilla swap traded on 30/11/16