620 8th Avenue
35th Floor
New York, NY 10018
United States

+1 212 931 4900 Phone
+1 212 221 9860 Fax
ihsmarkit.com

Derivatives Service Bureau Product Committee
Submitted via email to DSB-PC-Secretariat@etradingsoftware.com

January 4, 2016

Objectives and Principles of First Phase of Product Committee Work

Dear Sirs and Mesdames,

IHS Markit (formerly known as "Markit") is pleased to submit the following comments to the Derivatives Service Bureau ("DSB") Product Committee ("PC") regarding the consultation paper entitled "Objectives and Principles of First Phase of Product Committee Work" ("Consultation"). IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide.

IHS Markit's Reference Entity Database ("RED") has been providing legally verified reference data across credit, loan, and fixed income asset classes to the industry.[1] IHS Markit's reference data for CDS has been servicing the credit OTC derivatives industry for more than a decade and is an integral part of credit workflows. The RED platform has two core components:

1. The Reference Entity Database Code or "RED6 Code." The RED6 Code is a six-digit code that corresponds to a particular reference entity.

2. The "RED9 Code." A nine-digit code representing a unique reference obligation with a corresponding reference entity.

These RED Codes are market standards and are deeply embedded in the pre- and post-execution credit trading workflows. These identifiers are also widely used in risk analytics, pricing and valuations, trade confirmations, electronic trading, clearing, settlement and trade allocations.

We support the DSB PC's efforts to create comprehensive derivatives reference data that meets the requirements of RTS 23. We defer to the industry and relevant authorities as it relates to the ISIN attributes. As a leading reference data provider, we intend on offering our assistance to ensure a successful implementation of the ISIN.

To this end, below we make two principal comments:

---

[1] See Markit Reference Data,
https://www.markit.com/Product/File?CMSID=9f15e144175e4c449b661108fd8db0f8.

1. We would recommend assigning data validation duties to the DSB or a service provider to the DSB because of the risks of data inaccuracy that would follow from the proposed "crowd source" model recommended by the DSB.

2. Additionally, if the DSB is to produce a credit ISIN that does more than meet the minimum requirements under RTS 23, it should partner with IHS Markit to produce a credit ISIN. A credit ISIN that utilizes IHS Markit RED codes could also be relied upon to trade and settle credit derivatives.

Comments

We provide comments to question 13 posed in the Consultation:

> *13 Do you agree with the approach of shared responsibility for data validation, bearing in mind the specific data and cost challenges that might be incurred if were to reside wholly in either the user-base or the DSB? Please provide detailed examples in your response.*

We would recommend assigning data validation duties to the DSB or a service provider to the DSB. We understand that the Consultation contemplates an approach to ISIN creation and validation that places primary responsibility on the users of the DSB's ISIN service. This approach is fraught with risk. Most importantly, there is little accountability for new ISINs and we would expect the DSB would need more resources managing and validating the flood of ISINs it would receive. To ensure the successful launch of the DSB, we would recommend partnering with existing reference data providers whose products are subject to market discipline and have a reputation for accuracy and comprehensive coverage.

Additionally, if the DSB is to produce a credit ISIN that does more than meet the minimum requirements under RTS 23, it should partner with IHS Markit to produce a credit ISIN that can be relied upon to trade and settle credit derivatives. IHS Markit's RED Code service could be leveraged by the DSB to provide the (1) precise and (2) comprehensive reference entity and reference obligation data needed for market participants to rely on a credit ISIN identifier.

First, with respect to precision, we note that the Consultation refers to Field 27 from RTS 23 referring to Underlying issuer and, like RTS 23, contemplates populating this field with the LEI of the issuer. Whilst the LEI database is extending into an ever-growing list of entities, resulting in the issuance of more LEIs, the onus is and remains on the LEI *holder* to submit corporate changes - which may or may not happen promptly, and is least likely to occur around the most important moments in credit markets (i.e. at the time of credit events). As such, LEIs or ISINs based solely on LEIs are not updated as frequently as the RED database, and could lead to potential latency issues whereby market participants confirm a CDS contract on one legal entity name and an obligation pairing but the ISIN presents an inaccurate risk position to a regulator

because it reflects stale corporate reference data. Moreover, the task of mapping reference obligations to a CDS product is complicated and resource intensive. IHS Markit RED9 codes are the only economical way a credit ISIN could contain accurate reference obligation mappings.

Second, with respect to comprehensiveness, IHS Markit's RED database covers the universe of reference entities actively used in credit derivatives, containing approximately 14,000 reference entities that have had trades placed on them in the past 12 years. Of these, 10,000 are monitored by RED customers ("Active REDs") and approximately one-third of these Active REDs has an LEI today (we expect this population to increase but with limits). Of the Active RED population, there are approximately 890 credit indices (including structured credit indices) that do not have LEIs. 121 sovereign reference entities are also Active REDs but do not and are unlikely to ever have LEIs. In addition, 887 reference entities are either special purpose vehicles, trusts, or other non-trading entities (primarily corporates). In short, over 19% of the Active REDs are highly unlikely to ever obtain LEIs.

We look forward to discussing with the DSB PC how to design a credit ISIN that both meets relevant regulatory requirements and can meet the reference data needs of credit market participants.

<div align="center">************</div>

We hope that our comments are helpful to the DSB PC. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. In the event you may have any questions, please do not hesitate to contact Salman Banaei at salman.banaei@ihsmarkit.com or +1 347.324.8818.