



**etradingsoftware**  
connecting the market



# DSB-ETS Submission on Derivatives CTP

## Success Factors for a Derivatives CTP

We agree with the Commission's analysis that data quality and governance are critical to the success of a CTP and we note the Commission's desire to minimize delay in the implementation of the CTP. Accordingly, we have focused our response on these three items. We welcome a discussion with the Commission on these and other matters related to the creation of a derivatives CTP.

### Data Quality

As previously noted by the Commission, providing transparency in derivatives markets can be more problematic than cash markets because of the specific challenges around the identification of the derivative being priced / traded. In our response, we have addressed some of the key concerns articulated by market participants:

#### 1. Daily Change of the ISIN

For many benchmark derivatives, the ISIN identifier required for regulatory reporting under MiFID II changes every day. This daily change in the ISIN has caused some confusion in the marketplace. However, as the ISIN has been mandated by ESMA for use in multiple MiFID II regulatory technical standards, including for post trade transparency (RTS 2), transaction reporting (RTS 22) and reference data reporting (RTS 23), moving to a different identifier carries the risk of substantial disruption and costs across both existing regulated entities and also EU regulators.

As the operator and custodian of the derivatives datasets for both the ISIN and the UPI, the DSB already holds the underlying reference data for all the benchmark derivatives that exhibit the daily change behaviour described above. We confirm our willingness to explore whether our unique position in the market infrastructure provides the opportunity to enrich the CTP market data stream by inserting an additional market identifier alongside the ISIN in the CTP market data publication. This new market identifier could be designed to not change daily, by for example replacing the existing "maturity date" attribute with a "forward tenor" attribute. This change, along with the existing "contract duration tenor" attribute that has already been implemented in the OTC ISIN, is one possible solution to provide market participants with a non-changing identifier which can sit beside the existing ISIN. In this model, regulated entities can still use the ISIN for all their regulatory obligations whilst the broader marketplace will have the choice of using the new market identifier for other use cases.

The benefits of such an approach could mean that industry systems that have been implemented to satisfy existing MiFID II regulatory requirements do not need to change. Similarly there would be no need for any changes to EU regulators' systems. However, the benefits of a market identifier that is consistent with the market's view of the derivative product and which does not change daily would be available to all market participants and this identifier would be tightly linked to the ISIN and the UPI through a common dataset and common data dictionary, thereby ensuring high data quality.

We also confirm our willingness to consider extending the scope of the DSB's Product Committee charter to provide oversight and stewardship over the evolution of the new identifier, alongside the UPI and the ISIN. This governance model can guarantee the on-going consistency of the new identifier with both the UPI and the ISIN, as market needs change and as public authorities' needs change.

#### 2. Ambiguities in RTS 2 Data Specifications

Some market participants have expressed a concern that the definitions of existing RTS 2 data fields are subject to different interpretations, which makes high quality aggregation across reporting entities difficult/impossible. Whilst the specific examples we have seen appear amenable to simple fixes, we agree with the broader thrust that RTS2 specifications are not sufficiently rigorous to unambiguously specify how these fields should be populated.

We note that this challenge is identical to the challenge faced by the DSB for the OTC ISIN and the UPI in ensuring unambiguous definitions for their respective data elements. Our success in achieving high quality reference data is due to our experience of operating robust governance models and associated stakeholder groups which provide stewardship and oversight on the creation and maintenance of the detailed specifications to remove such ambiguities.

We urge the Commission not to attempt to address any technical shortcoming directly into the level 1 regulation text because even if such specifications were to be fit for purpose on initial implementation date, our experience with the OTC ISIN is that the pace of change in the derivatives asset class is sufficiently high that any level 1 text risks becoming out of date quickly. Instead, we urge the Commission to focus on establishing the appropriate governance framework within which any CTP operator must work, and delegate the detailed specifications to the CTP operator.

We confirm our willingness to explore with the Commission and other public authorities how our experience and expertise in derivatives datasets and the operation of robust governance models can assist in the creation and maintenance of an unambiguous specification of the derivatives CTP dataset.

### 3. Additional price-forming data fields

We understand the Commission is interested in the additional data elements that may be required for a comprehensive understanding of a CTP's price data. However, we urge the Commission not to embed such detailed technical details into the level 1 regulation. Instead we recommend that the level 1 text is focused on ensuring an appropriate governance model is utilized for industry and public authorities to collaborate in creating and maintaining the appropriate technical standards, without the need for such standards to be codified into the level 1 text.

However, in the interest of providing some context we have provided an example set broken into two categories:

- a) Data elements that define the product. These depend on the product type. We have provided a sample of attributes that are useful for an interest rate swap:

Contract Term / Forward Term / Trade Start Type (number of days from start date to effective date) / Notional Type / Fixed Leg Payment Frequency / Fixed Leg Day Count Convention / Floating Leg Reference Index / Floating Leg Reset Frequency / Floating Leg Day Count Convention

- b) Data elements that are part of the trading data and provide context to the price but do not define the product. We have provided a sample:

Execution Venue MIC or LEI / Trade Execution timestamp / Clearing House LEI / Notional amount / Notional currency / Price / Price notation type / Flags

We confirm our willingness to explore whether the DSB's existing governance structures can be extended to include the scope for the maintenance of such data elements in order to ensure appropriate price transparency is achieved for the derivatives CTP.

## Governance

We agree with the Commission's assessment that a robust governance framework is an essential requirement for the successful implementation of a CTP. The governance model can be the mechanism to ensure that even after initial implementation, the CTP continues to evolve to meet the requirements of public authorities and the needs of market participants.

A robust governance framework takes significant time to establish, as evidenced by the multi-year effort by the Financial Stability Board (FSB) to create the governance framework for the UPI and the UPI Service Provider<sup>1</sup>. The FSB's governance model delegates the detailed technical implementation to the service provider, alongside the detailed commercial model, and the detailed technology and operations requirements. For all these aspects, the UPI governance model simply states that the service provider must follow a robust governance model that includes appropriate stakeholder stewardship.

We believe the FSB governance model has relevance to the CTP because it removes the need for the level 1 text to specify the detailed technical specifications and the detailed commercial model that the CTP must follow. Removing such detailed information from the level 1 text provides much more flexibility and can significantly increase the speed of establishing a derivatives CTP, by ensuring both the technical operation of the CTP and the commercial model of the CTP are established and continue to evolve without dependency on changes to the level 1 text.

We note that the FSB's governance model already has significant support from many market participants and we urge the Commission to adopt the FSB's governance model for the CTP. This approach allows for a much lighter touch level 1 text, without the need for detailed requirements to be baked into the level 1 text. Instead the heavy lift could be delegated to ESMA and the CTP operator to implement the appropriate fee model and technical implementation based on the governance framework established in the level 1 text. As the designated UPI Service Provider, we confirm our willingness to explore with the Commission how the level 1 text can be modified to cater for this approach.

## Accelerated Implementation

We remain convinced that a lighter touch level 1 text based on the approach outlined in our response will allow a much faster selection of the derivatives CTP operator.

Following such a selection, a key operational consideration for market participants will be simplified implementation for connectivity to the CTP. As a result of the EU mandate for the use of OTC ISIN for derivative regulatory reporting, the DSB already has API connectivity to all the major derivatives market participants in Europe. The effort by major market participants to establish this connectivity is now complete and we foresee potential synergies for market participants to accelerate implementation of CTP connectivity by leveraging their DSB connectivity.

We confirm our willingness to explore whether the DSB's existing infrastructure can be leveraged for the benefit of CTP users by for example, extending our APIs to cater for CTP functionality. We are hopeful that such re-use will

---

<sup>1</sup> <https://www.fsb.org/2019/10/governance-arrangements-for-the-upi/>



result in a significant reduction in the build and maintenance costs for derivatives market participants to connect to the derivatives CTP.

## **The Derivatives Service Bureau (DSB) Ltd**

The Derivatives Service Bureau is a global numbering agency for OTC derivatives serving the needs of market participants through the allocation of International Securities Identification Numbers (ISINs), the Classification of Financial Instruments (CFI) and Financial Instrument Short Name (FISN), all globally recognised and adopted ISO standards for identifying, classifying and describing financial instruments. With an underlying technology platform that is built to support multiple taxonomies of definitions and descriptive data, as well as numbering in near-real-time, the DSB is motivated to bring greater transparency and integration within the OTC derivatives market, enabling institutional investors to standardise data and better control operational risk. Users can access the DSB through a web interface, by accessing data in daily update files or by direct integration to front-office systems for trading and order management.

The DSB is a legal subsidiary of the Association of National Numbering Agencies (ANNA). With widespread industry representation, expertise and collaboration at its core, the DSB's history, pedigree and expertise are rooted in ANNA, with its broad experience and overview of handling both on and off-exchange ISINs for all asset classes.

## **Etrading Software Ltd**

Etrading Software (ETS) is the global provider of technology-led solutions designed to assist financial institutions and industry initiatives address highly complex and constantly evolving market and regulatory challenges. Etrading Software designs, builds and operates technology solutions for the front office for fixed income OTC markets, allowing our clients to keep full governance and control using transparent and vendor-neutral solutions.

ETS has served as the Managed Service Provider and technology partner to the DSB since its inception.

## **Scope of Response**

The solution proposed is for a derivatives CTP.