

DERIVATIVES SERVICE BUREAU

INDUSTRY CONSULTATION #1 – UPI FEE MODEL PRINCIPLES

Emma Kalliomaki, DSB MD
Malavika Solanki, DSB Management Team
Sassan Danesh, DSB Management Team

2ND FEBRUARY 2021

AREAS OF FOCUS

1. UPI Overview
2. UPI Governance
3. DSB Role
4. DSB Principles
5. Consultation Timeline
6. Proposed Format for Industry Response
7. Assumptions
8. Consultation Questions
9. Proposed Format for Industry Response
10. Further Information

I. UPI OVERVIEW – I OF II

- UPI stands for ‘Unique Product Identifier’
- UPI is part of the package of G20 reforms aimed to increase transparency in financial markets, mitigate systemic risk, and protect against market abuse following the financial crisis that began in 2007–08.
- The UPI is designed to facilitate effective aggregation of over-the-counter (OTC) derivatives on a global basis when reported to a Trade Repository to allow for unique identification of the product involved in an OTC derivatives transaction
- Works in conjunction with Unique Transaction Identifiers (UTIs) and Critical Data Elements (CDE) which are also reportable to global regulatory authorities
- The DSB has been designated as the sole service provider for the future UPI System by the Financial Stability Board (FSB) which includes operation of the UPI reference data library – live from Q3 2022 onwards

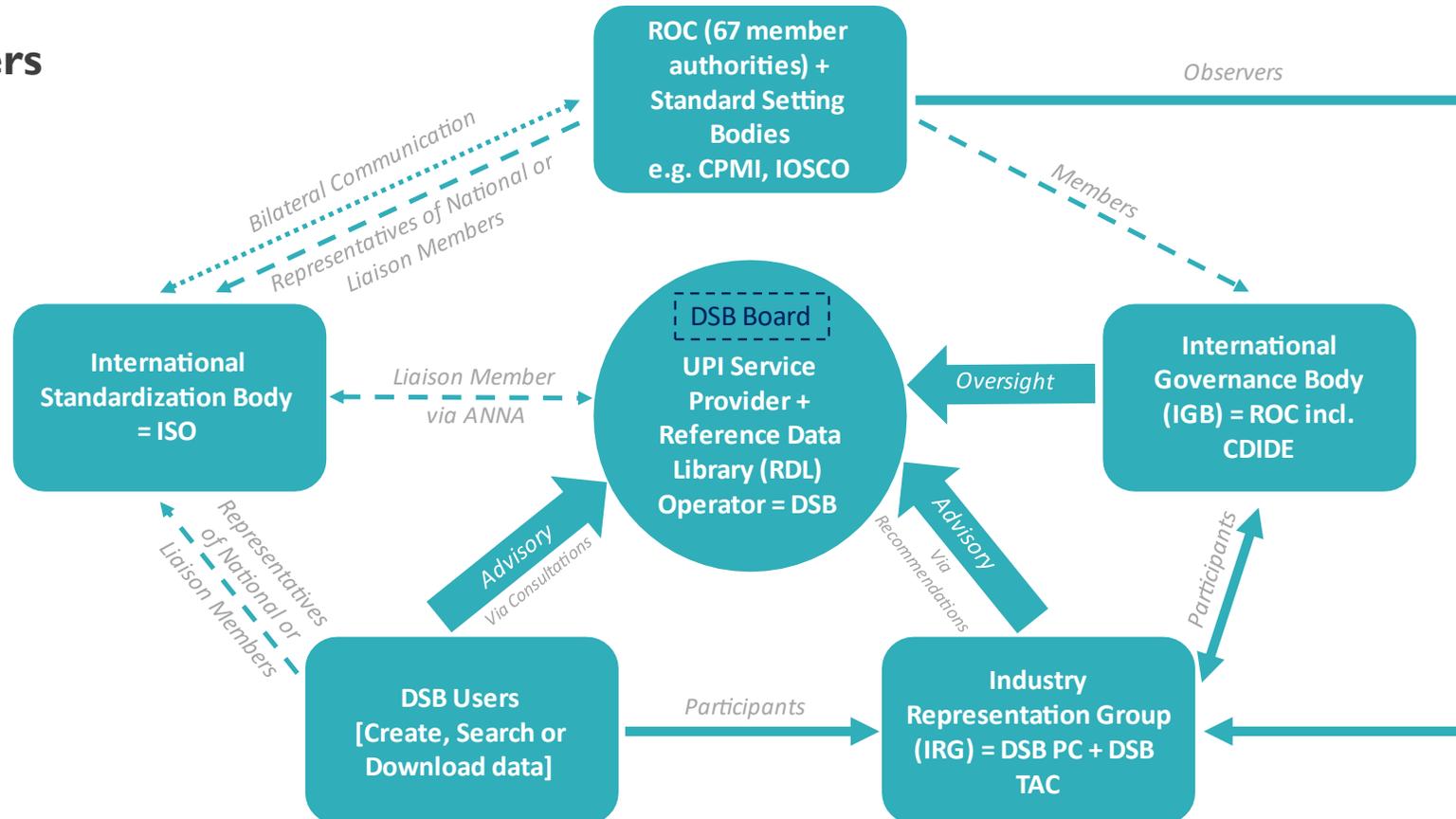
I. UPI OVERVIEW – II OF II

Implementation Timeline

- As part of its Governance arrangements for the UPI, the FSB outlined high-level expectations for global UPI implementation planning.
- It was recognised that jurisdictional implementation is likely to be staggered, occurring at varying speeds because of the independent decision-making processes and prioritisation of initiatives in each jurisdiction.
- Allowing for legal changes to be made and for Trade Repositories (TRs) and reporting entities to adapt, the FSB recommendation is that jurisdictions undertake the necessary actions relevant to their situation to implement the UPI technical guidance no later than the third quarter of 2022.
- In preparation for UPI adoption and implementation by supervisory authorities, the DSB continues to work with the Regulatory Oversight Committee (ROC) and industry stakeholders to refine the requirements and framework for UPI integration.

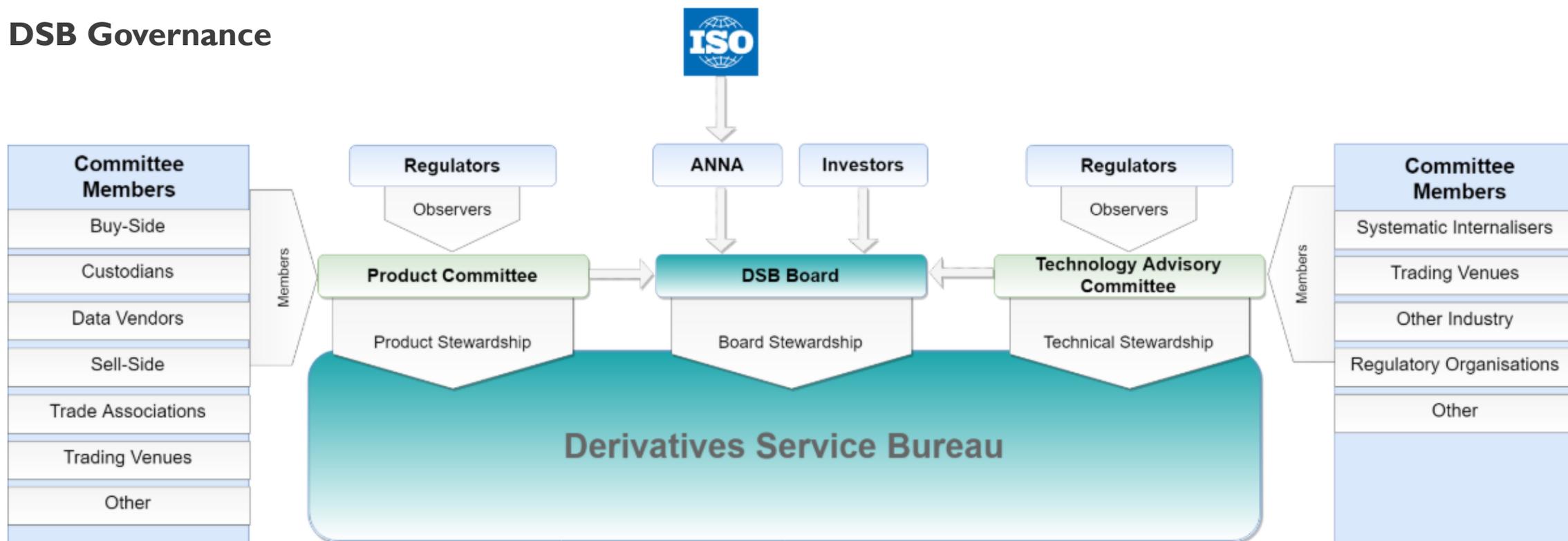
2. UPI GOVERNANCE – I OF II

UPI Stakeholders



2. UPI GOVERNANCE – II OF II

DSB Governance



3. DSB ROLE

What is the DSB?

- A technology **platform** that generates an identification and classification hierarchy for OTC derivatives
- It is **global** in design and operation, operated under the ISO principles including on a **cost recovery** basis
- Within its scope of OTC derivatives, it provides the industry with an archive of Unique Product Identifiers (**UPIs**), International Security Identifier Numbers (**ISINs**) and their **associated instrument reference data**

What does the DSB do?

- Generation of **UPIs from Q3 2022**
- **ISIN, CFI and FISN generation** for OTC derivative product as required by market participants – live since 2017
- **Distribution of OTC ISINs** and their associated reference data to market participants
- Interaction options include **web interface, programmatic/API connectivity and file download**

Drivers

- The **DSB** has been **designated** by the FSB as the **sole UPI Service Provider** and operator of the Reference Data Library
- **EU regulators** have **mandated** that OTC ISINs identify instruments for **MiFID2 / MiFIR** reporting, including some **OTC derivatives**
- The **DSB** is the sole source of **CFIs, UPIs and ISINs for OTC derivatives** and was engineered to serve the needs of regulators and industry participants, to enable the industry to meet regulatory obligations

4. DSB PRINCIPLES I OF II

Industry Stewardship

- Product definitions and maintenance is via industry-led [Product Committee](#) of market practitioners.
- [Technology Advisory Committee](#) formed to advise on future evolutions of the DSB technology platform to address changing market requirements.
- Public and transparent [Industry Consultation](#) process is open to all users to shape the evolution of the service.
- Third Party Assurance Audit - [ISAE 3402 and AAF 01/06 Type I Report](#).

Cost Recovery

- The numbering agency services will be provided on a cost-recovery basis

Reasonable and Non-Discriminatory (RAND) Access and Use

- DSB ISINs and their associated data will have no licensing restrictions on usage and distribution for any purpose as part of the ISIN record.
- Access to the DSB archive for consumption of OTC derivative ISINs and associated reference data will be available for free to all registered organizations and users.

4. DSB PRINCIPLES II OF II

Equal Treatment

- The DSB aims to ensure parity and efficiency in delivery of service which includes following standardised processes and procedures for all users of the DSB operating under the cost recovery service.
- The DSB utilises a common agreement to ensure equal treatment across all users. Any exceptions to the terms are only introduced on the basis that they can be consistently applied across all users without imposing a risk on the service.

Future Industry Consultation on Legal Documentation

- Following completion of the UPI Fee Model industry consultations in 2021, the DSB will conduct an additional industry consultation on the legal documentation which will support the UPI service provision.
- The industry consultation on the UPI legal documentation is anticipated for the beginning of 2022.

5. DSB CONSULTATION TIMELINE

Milestone	Date
Publication of DSB UPI Fee Model Consultation #1	Mon 11 th Jan 2021
Explanatory webinar 1 (for attendees in Asia + Australia) ¹ Register here	Tue 2 nd Feb 2021
Explanatory webinar 2 (for attendees in the ROW) ¹ Register here	Wed 3 rd Feb 2021
Industry Feedback deadline (for UPI Fee Model Consultation #1)	Fri 5 th Mar 2021
Publication of DSB UPI Fee Model Consultation #2	Mon 10 th May 2021
Industry Feedback deadline (for UPI Fee Model Consultation #2)	Fri 9 th Jul 2021
Publication of Final DSB UPI Fee Model Report	Mon 27 th Sep 2021

¹ Recording will be made available on the DSB website

6. PROPOSED FORMAT FOR INDUSTRY RESPONSE

- Designed to consolidate industry feedback in a scalable manner
- Consultation responses to be completed using the form available [here](#) and emailed to industry_consultation@anna-dsb.com
- Stipulate whether the respondent wishes the response to be treated as anonymous. Note that all responses are published on the DSB website and are not anonymized unless specific requests are made
- Where applicable, responses should include specific and actionable alternative solution(s) that would be acceptable to the respondent in order to ensure that the DSB can work to reflect the best target solution sought by industry as a whole (within the governance framework of the utility)
- **Responses must be received by 5pm UTC on Friday 5th March 2021**
- All consultation related queries should be directed to industry_consultation@anna-dsb.com

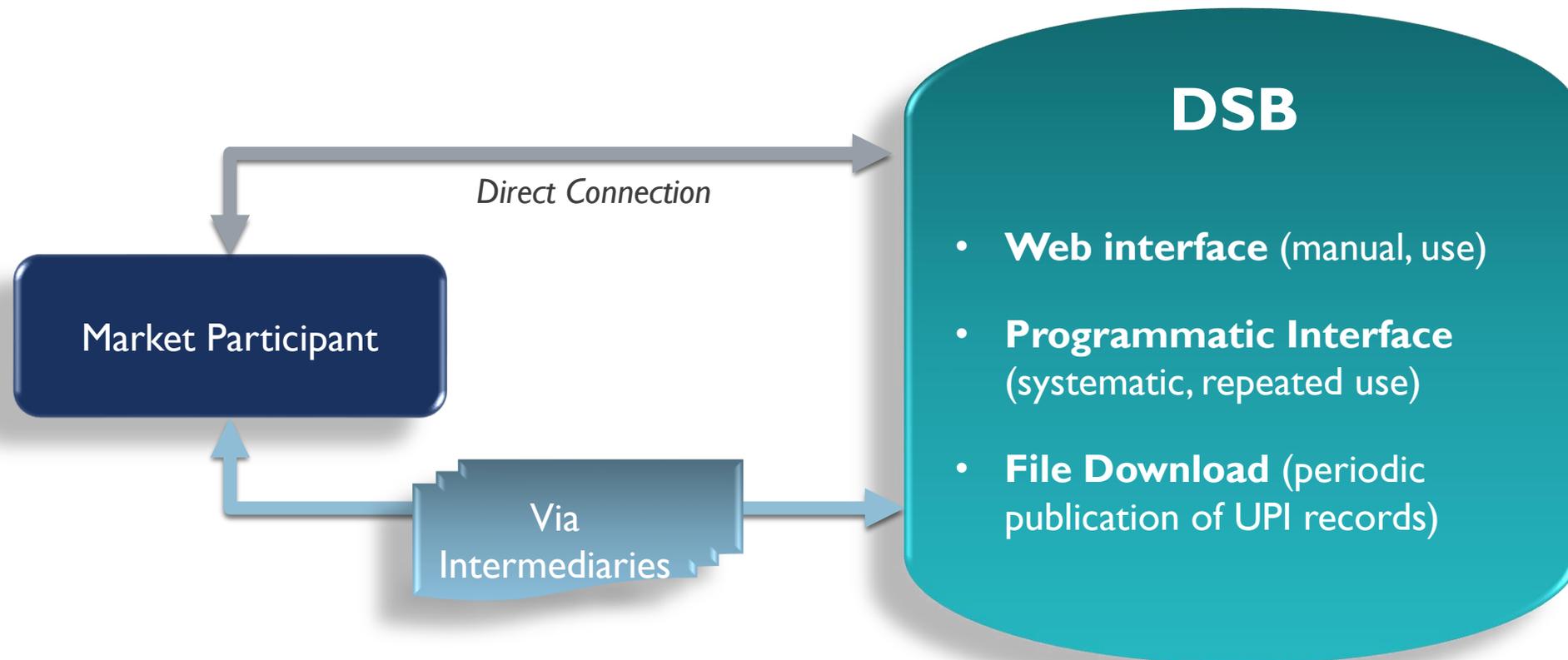
7. ASSUMPTIONS: OVERVIEW

- The DSB assumptions underpin the core approach for the UPI service implementation, and thus impact user fees, which are used for cost recovery.
- Estimated costs will be included in the next consultation, including a breakdown of the key cost components, subject to the feedback received in response to this paper.
- The DSB recognises the need for revaluation of the fee model principles that result from the consultation in 2021.
- An evaluation will be undertaken following initial adoption of the UPI service to ensure that that the UPI model remains fit for purpose, two years after launch of the UPI service.

7. ASSUMPTIONS: #1 – LEVERAGE DSB PROCESS TO MINIMIZE COST

- The DSB currently facilitates access for a broad spectrum of users, including credit institutions, small brokerages, private wealth management firms, boutique asset managers, large, multi-segment and/or multi-market trading venues, derivatives houses from across the buy and sell-sides and universal-bank style sell-side institutions with multiple business segments within a single group holding structure.
- Leveraging the DSB's existing service provision seeks to provide two primary benefits:
 - Reduction of the UPI user fee burden by minimizing implementation and run costs for the DSB
 - Reduction of the user's own technology burden so that the several hundred institutions already connected to the DSB can overlay their UPI related workflows in a manner that is more integrated with their other OTC derivative reference data needs.

7. ASSUMPTIONS: #1 – LEVERAGE DSB PROCESS TO MINIMIZE COST



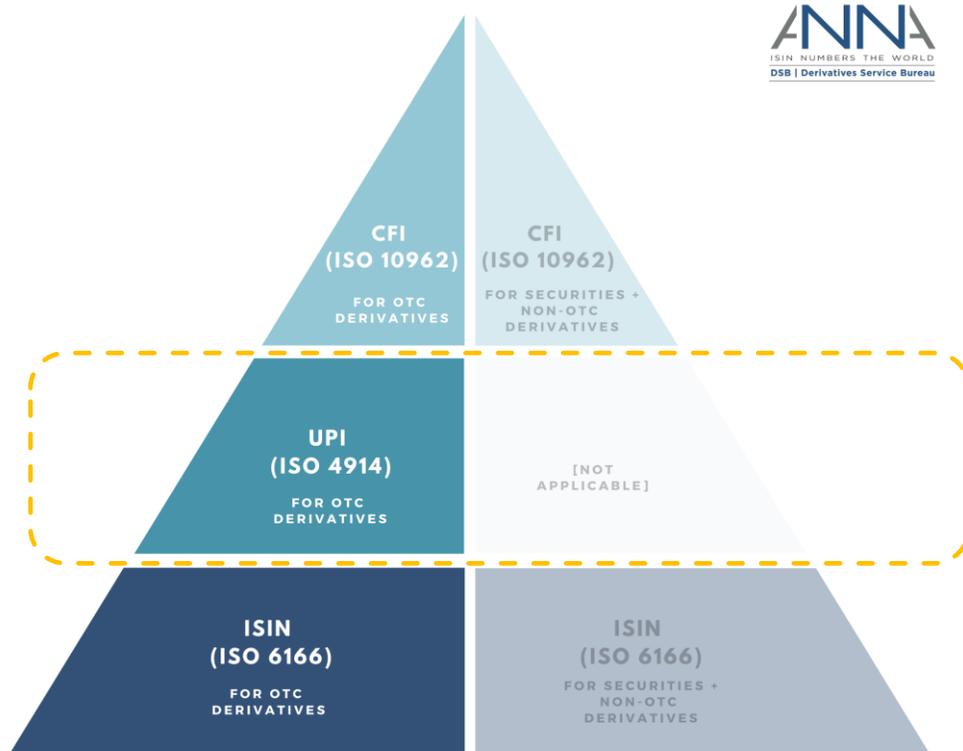
7. ASSUMPTIONS: #1 – LEVERAGE DSB PROCESS TO MINIMIZE COST

- Within the DSB existing service provision, access is currently provided to users on the following basis:
 - i. Power User:** programmatic connectivity for high volume creation and search services (paid usage)
 - ii. Standard User:** manual creation and search services for lower volume users, using a web-front end (paid usage)
 - iii. Infrequent User:** manual creation and limited search services using a web-front end – targeted towards very low volume users, with a limit on the number of search results returned and an unlimited number of searches (paid usage)
 - iv. Registered User:** manual search services using a web-front end, with a limit on the number of search results returned and an unlimited number of searches (free to use)

7. ASSUMPTIONS: #1 – LEVERAGE DSB PROCESS TO MINIMIZE COST

- **Irrespective of user type, all DSB users can:**
 - Search for OTC derivative data in near real-time by logging on to the DSB's web front end
 - Conduct a manual search and download the specific record of interest in machine readable format
 - Download machine readable records and have free of cost access to regularly published files containing a list of all new records created or updated in that period
 - Obtain the UPI derivative identifier from the counterpart with whom the trade was executed
 - Obtain the UPI derivative identifier from the trade execution platform on which the trade was executed
 - Once obtained, use the UPI as part of their subsequent post-trade workflows

7. ASSUMPTIONS: #2 – UPI ALIGNMENT WITH OTHER STANDARDS



- The data elements contained in the UPI are assumed to directly align with international standards for other OTC derivatives identifiers and classification codes (e.g. ISIN and CFI)
- This allows market practitioners to more easily understand the relationship between the various standards, and aids greater efficiency - in the creation and/or search for data - to assist with their global regulatory reporting obligations
- The UPI, currently being developed as an ISO standard (ISO/WD 4914), will sit within the suite of ISO standards provided by the DSB as a product level identifier, reflecting a subset of the data elements required for OTC ISIN

7. ASSUMPTIONS: #2 – UPI ALIGNMENT WITH OTHER STANDARDS

- A key assumption is that the data elements contained in each of the CFI, UPI, and OTC ISIN will remain aligned.
- This approach is endorsed by the DSB Product Committee as it allows market practitioners to readily understand the relationship between the various standards, and also more efficiently seek to create and/or search for data to assist with their global regulatory reporting obligations
- The DSB Product Committee will work with the ROC to resolve any concerns with respect to alignment of the CFI, UPI and OTC ISIN.
- It is expected that all OTC derivatives that are reportable to regulators could have one or more of the CFI, UPI and OTC ISIN – an approach supported by the DSB’s data architecture.
- DSB users will determine the specific identifiers that are created and therefore available for search and download.

7. ASSUMPTIONS: #3 – UPI PRODUCT DEFINITION

- It is assumed that the DSB Product Committee (PC) will continue to determine the precise definition of each UPI record, so long as the minimum data elements set out by ISO standard for UPI are satisfied.
- The PC therefore can determine whether any given UPI product definition should contain any additional data elements beyond those specified in the UPI ISO standard, if it determines that these additional data elements best represent the key feature set of the product
- This assumption aims to build on the DSB's existing practice, and on lessons learned in the development of other OTC derivatives identifiers and classifiers.
- The DSB PC (comprising a diverse spectrum of industry practitioners, trade associations, and regulators) has commenced a review of the alignment between the data elements contained in the OTC ISIN and the UPI as set out in the [Technical Guidance Document published by CPMI-IOSCO](#).

7. ASSUMPTIONS: #3 – UPI PRODUCT DEFINITION

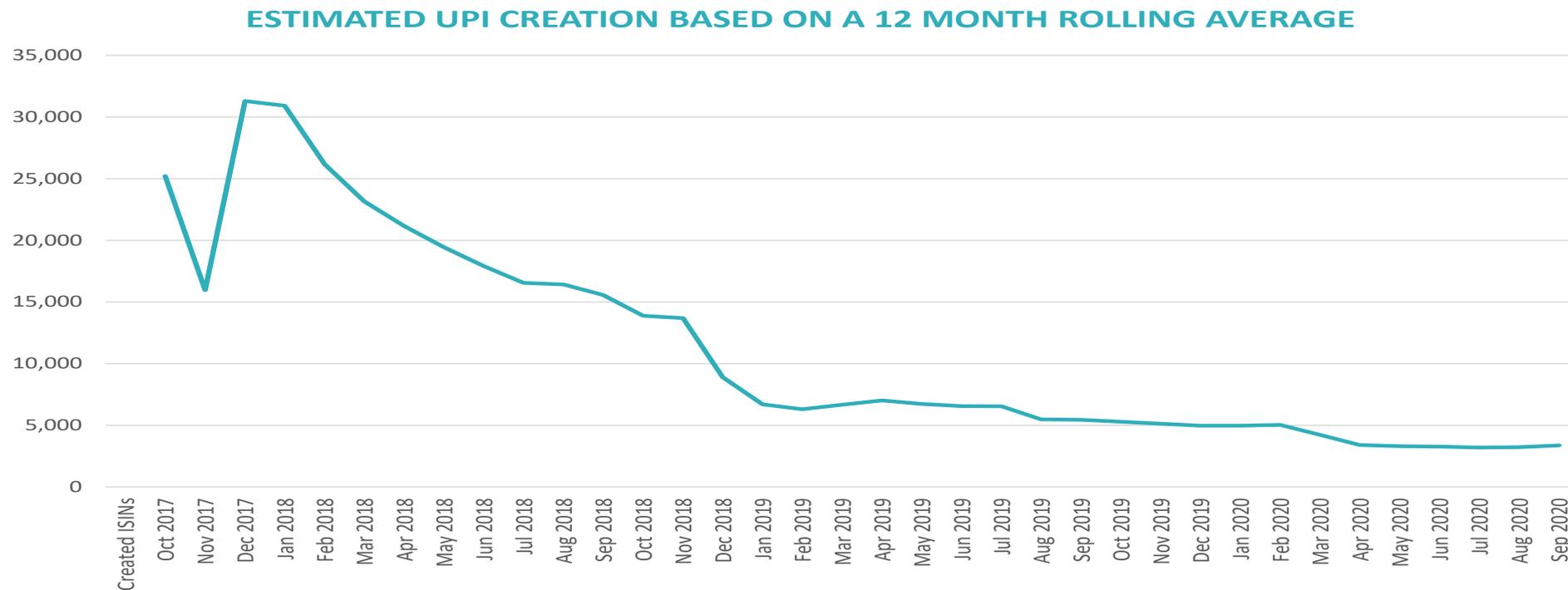
- The preliminary review has now been completed and sought to evaluate the data needs of the UPI in order to determine to what extent these were already held by the DSB when users were requesting an OTC ISIN and/or CFI code (as is expected to be the case for the large global financial services institutions).
- The PC has subsequently been engaged in communications first with the FSB and now the ROC as part of its ongoing UPI related work and will undertake a detailed review of the full suite of UPI product definitions (for both input and derived values) so that implementation aspects can be finalised.
- The PC is also examining any additional data sources that might be required to ensure global applicability of the identifier such as a sufficiently broad set of indices (across a range of asset classes, etc.).

7. ASSUMPTIONS: #4 – UPI CREATION ESTIMATES

- This assumption aims to provide insight into the estimates of both the initial UPI creation levels and the longer-term flow rate so that respondents are able to consider them when providing feedback on the consultation questions.
- The DSB estimates the number of UPIs required, as part of a series of inputs to determine the functional and non-functional requirements of the UPI service.
- Estimates are based on the minimum criteria set out in the UPI Technical Guidance document referenced earlier, in conjunction with the data elements used to define the OTC ISIN and focus on the most frequently utilized product templates.
- The data presented should be treated as a general guideline, with post go-live data determined by users' specific regulatory reporting requirements, and the precise UPI product templates that are proposed by the Product Committee.

7. ASSUMPTIONS: #4 – UPI CREATION ESTIMATES

- The chart below highlights the 12-month rolling average based on the methodology set out in the consultation paper.



7. ASSUMPTIONS: #5 – UPI ADOPTION EXPECTATIONS

- The DSB assumes that it is expected to be ready with a UPI service that can be utilized by industry to align with regulatory insight indicating that rules to support UPI reporting are either already in place or expected to be in place no later than mid to late 2022.
- Final regulatory adoption timelines will be subject to availability of the UPI service by the DSB, and market consultation in several jurisdictions.
- The underlying expectation appears to be that all asset classes will be reportable via a “big bang” approach, premised on dual-sided reporting.
- Reporting timelines are expected to vary by jurisdiction with a spectrum ranging from within 15 minutes from execution to T+2, with several jurisdictions converging on a T+1 approach

8. CONSULTATION QUESTIONS - #1: USER ESTIMATES

- **Summary:** The DSB estimates approximately that 20,000 organizations globally are likely to connect to the DSB to access UPI data, with supporting rationale set out in the paper. This estimate is predicated on a steady state expectation based on the information set out in the supporting information.
- The DSB utilized four approaches in arriving at estimated numbers – these were:
 - leveraging the lessons learned in the three years since the OTC ISIN was launched
 - identifying publicly available and validated data points and citations
 - soliciting regulatory feedback
 - obtaining anecdotal market feedback

8. CONSULTATION QUESTIONS - #1: USER ESTIMATES

- The DSB has utilized estimates based on regulatory feedback as these are predicated on current user reporting practice and thus deemed to be the most accurate data source currently available. The DSB proposes to move forward on the following assumptions:
 - 12,000 organizations representing 80.5k legal entities will pay to connect programmatically
 - 8,000 organizations representing 53k legal entities will pay to connect manually
 - 20,000 organizations representing 133.5k legal entities will connect free of cost
- **Question 1a:** Do you concur with the UPI user connectivity assumptions set out?
- **Question 1b:** If not, what specific alternate approach do you recommend? Please provide a clear rationale and cite publicly available sources for any additional data points you believe should be incorporated into the DSB's assumptions.

8. CONSULTATION QUESTIONS - #2: FORECAST USER INTERACTION WITH THE DSB

- **Summary:** The DSB anticipates that users will require support for three types of workflows, subject to their regulatory needs. Some users will:
 - only require the ability to create, search for and/or download the UPI reference data record
 - only require the ability to create, search for and/or download the OTC ISIN reference data record
 - have reporting needs that require either the UPI or the OTC ISIN, subject to their reporting jurisdiction

8. CONSULTATION QUESTIONS - #2: FORECAST USER INTERACTION WITH THE DSB

- It is anticipated that the following data elements would be available in each scenario set out on the previous slide:
 - **Organizations that only require access to the UPI** – would obtain a UPI reference data record containing all input and derived data elements associated with the UPI
 - **Organizations that only require access to the OTC ISIN, CFI and FISN (the current DSB service)** – would obtain an OTC ISIN reference data record containing all input and derived data elements associated with the OTC ISIN
 - **Organizations that require access to the full suite of UPI, CFI, FISN, and OTC ISIN** – would obtain all the input and derived data elements that define each of the UPI, CFI and OTC ISIN
- In each instance, the exact set of data elements returned by the DSB for each of the CFI, UPI, FISN, and OTC ISIN are subject to the criteria set out in the associated ISO standard and additional determinations made by the PC.

8. CONSULTATION QUESTIONS - #2: FORECAST USER INTERACTION WITH THE DSB

- **Question 2:** Do you concur with the anticipated workflows presented on the following slide?
- **Question 2b:** If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.

8. CONSULTATION QUESTIONS - #3: USER ACCESS

- **Summary:** The DSB proposes to facilitate access to the UPI service and the UPI reference data library on a programmatic basis, via a web front end, and via a file download service, with records available in a machine-readable format.
- The DSB proposes to ensure that UPI users have access to the full suite of access mechanisms that are currently available to DSB users through the existing service. In addition, the DSB proposes to extend user access to include any new user types that are introduced in 2021, so that users are able to utilize the workflow that best meets their needs.

8. CONSULTATION QUESTIONS - #3: USER ACCESS

- DSB users currently access the service using one of the following modes of access:
 - Programmatically connect to create and search in near real-time, and download data
 - Manually connect to create, search for and download data
 - Manually connect to search for and download data
 - Manually or programmatically connect to download data from the file download service
- **Question 3a:** Do you concur with the proposal presented, which seeks to leverage the core approach utilized for the existing service, and which has been endorsed by industry through several rounds of consultation?
- **Question 3b:** If not, what specific alternate approach do you recommend? Please provide a clear and objective rationale for each alternate approach you recommend.

8. CONSULTATION QUESTIONS - #4: REGISTERED USER FILE DOWNLOAD TIMING

- **Summary:** Given the lower anticipated UPI volumes (compared to the existing OTC ISIN service), the DSB foresees a risk that a larger proportion of the UPI user base (compared to the OTC ISIN service) may rely exclusively on the DSB's free service, which includes the daily generated machine-readable download files. In this circumstance, the cost for each fee-paying user would be higher than otherwise.
- In order to mitigate this risk, the DSB proposes to provide access to the daily data files with a two day time-delay.
- The DSB also considered not making any modifications to the existing daily download model. This approach would simply extend the existing DSB service model to the UPI service and therefore likely have the lowest overall implementation effort and cost for both the DSB and industry.
- **Question 4:** Do you agree that the DSB should provide access to the UPI end of day data files with a two day time-delay in order to ensure a fair distribution of cost across users?

8. CONSULTATION QUESTIONS - #5: UPI COST ALLOCATION METHODOLOGY

- **Summary:** In order to keep the UPI build and operating costs low for both industry and the DSB, the DSB will re-use its existing staff, systems and processes wherever appropriate. This re-use will result in shared costs between the DSB's existing services and UPI services and therefore the DSB requires a policy for allocating such shared costs fairly across the services. The policy will be the subject of controls that will be validated through the DSB's third-party assurance programme.
- Given the start-up nature of the UPI service, the DSB is mindful that a large initial allocation of overheads against the UPI service may place a large cost onto a small number of users in the initial jurisdictions that go live with the UPI. Therefore, the DSB is proposing a phased approach with the allocation of shared costs against the UPI service rising incrementally in the first few years.

8. CONSULTATION QUESTIONS - #5: UPI COST ALLOCATION METHODOLOGY

- Specifically, the DSB proposes that:
 - The initial UPI build costs be amortised as per existing DSB policy (as consulted in section 5.8 / Q8 Capital Expenditure Amortisation Approach), with the first year of amortisation being 2023. This means 2022 UPI users will not contribute towards the amortisation costs, given the smaller anticipated number of UPI users in 2022 vs 2023.
 - 100% of the synergies available by leveraging the existing DSB platform to be allocated to UPI users in 2022 and 2023, after which the available synergies to be shared between both OTC ISIN users and UPI users via an allocation policy that the DSB will propose and consult with stakeholders in 2023.
- **Question 5:** Do you agree with the DSB's proposed cost allocation policy for the DSB's costs?

8. CONSULTATION QUESTIONS - #6: DURATION OF UPI USER AGREEMENT AT LAUNCH

- **Summary:** In order to provide clarity on the commitments and responsibilities of UPI users and the DSB to each other, the DSB expects all UPI creators and API users to sign a common User Agreement. Based on feedback from the DSB's existing user base, the DSB believes the most appropriate period for the UPI User Agreement is the Gregorian calendar year.
- The DSB anticipates launching its production UPI service at the end of June 2022. Given the intra-year start to the service, the DSB proposes that the duration of the first User Agreement to be shorter than the standard 12 months in subsequent years, in order to align all subsequent User Agreements with the Gregorian calendar year. This will result in a proportional reduction in the initial fee to compensate for the shorter duration.
- Given the intra-year start to the service, the DSB proposes that the duration of the first UA to be shorter than the standard 12 months, in order to align all subsequent UAs with the Gregorian calendar year.

8. CONSULTATION QUESTIONS - #6: DURATION OF UPI USER AGREEMENT AT LAUNCH

- This will result in a proportional reduction in the initial fee to compensate for the shorter duration.
- Users who wish to continue to utilise UPI services at the end of the initial UA period will roll into a renewal period of a full Gregorian calendar year.
- The DSB also considered the following scenarios, with additional information set out in the consultation paper:
 - Whether the UA needs to have a fixed duration
 - Whether the UA duration should be shorter / longer than a calendar year
 - Whether the UA should cover 12 months from the date of signature
- **Question 6:** Do you agree with the DSB's proposal for a short duration User Agreement for UPI users in 2022 that ends on 31 December 2022, followed by annual contracts that cover a full Gregorian calendar year?

8. CONSULTATION QUESTIONS - #7: INVOICING APPROACH

- **Summary:** In order to provide budget certainty to the user base and guarantee the financial stability of the service, the DSB proposes to invoice users a single fixed amount on, or shortly in advance of, the User Agreement (UA) period to cover the entire UA period.
- Any differences between the DSB's actual costs and the revenues received in the UA period will be reconciled after the DSB's accounts for that period have been audited, with any surplus / deficit applied as an adjustment to the user fees for the year subsequent to the audited accounts being finalised.
- The DSB proposes to charge each category of fee-paying user a fixed fee that varies by user category. The fee will cover the user for the duration of the UA, regardless of the number of times the UPI service is accessed, either for UPI creation or for UPI retrieval / searches.
- User fees will be determined by an estimate of the DSB's costs for the UA period, with the user fee calculated as the estimated cost divided by the number of users who have signed the UA.

8. CONSULTATION QUESTIONS - #7: INVOICING APPROACH

- Any differences between the DSB's actual costs and revenues for the UA period vs. the original estimated costs and revenues after the DSB's accounts for that period have been audited will be reconciled.
- The DSB proposes to apply any surplus / deficit as an adjustment to the user fees in the year subsequent to the audited accounts being finalised.
- The DSB also considered the following options:
 - Invoicing at the end of the UA period rather than the beginning
 - Invoicing per UPI creation and/or API search & retrieval
- Rationale for why these approaches were not taken forward in the proposal presented for industry consultation are provided in the paper for review and feedback.
- **Question 7:** Do you agree with the DSB's approach to invoicing users for its services?

8. CONSULTATION QUESTIONS - #8: CAPITAL EXPENDITURE AMORTISATION APPROACH

- **Summary:** The DSB will treat the cost of the initial build and any subsequent investment in system enhancements as capital expenditure and will amortize these costs over a number of years, as per generally accepted accounting principles.
- The DSB proposes to amortize the capital expenditures over 4 years, starting from the first full year when the service benefits from the capital expenditure. This approach is consistent with the DSB's existing capital expenditure policy.
- The DSB proposes to recover operating expenditure on the UPI service from the user base in the year it has been incurred.
- **Question 8:** Do you agree with the DSB's approach to amortisation of its capital expenditure over 4 years, starting from the first full year when the service benefits from the capital expenditure?

8. CONSULTATION QUESTIONS - #9: ANY OTHER COMMENTS

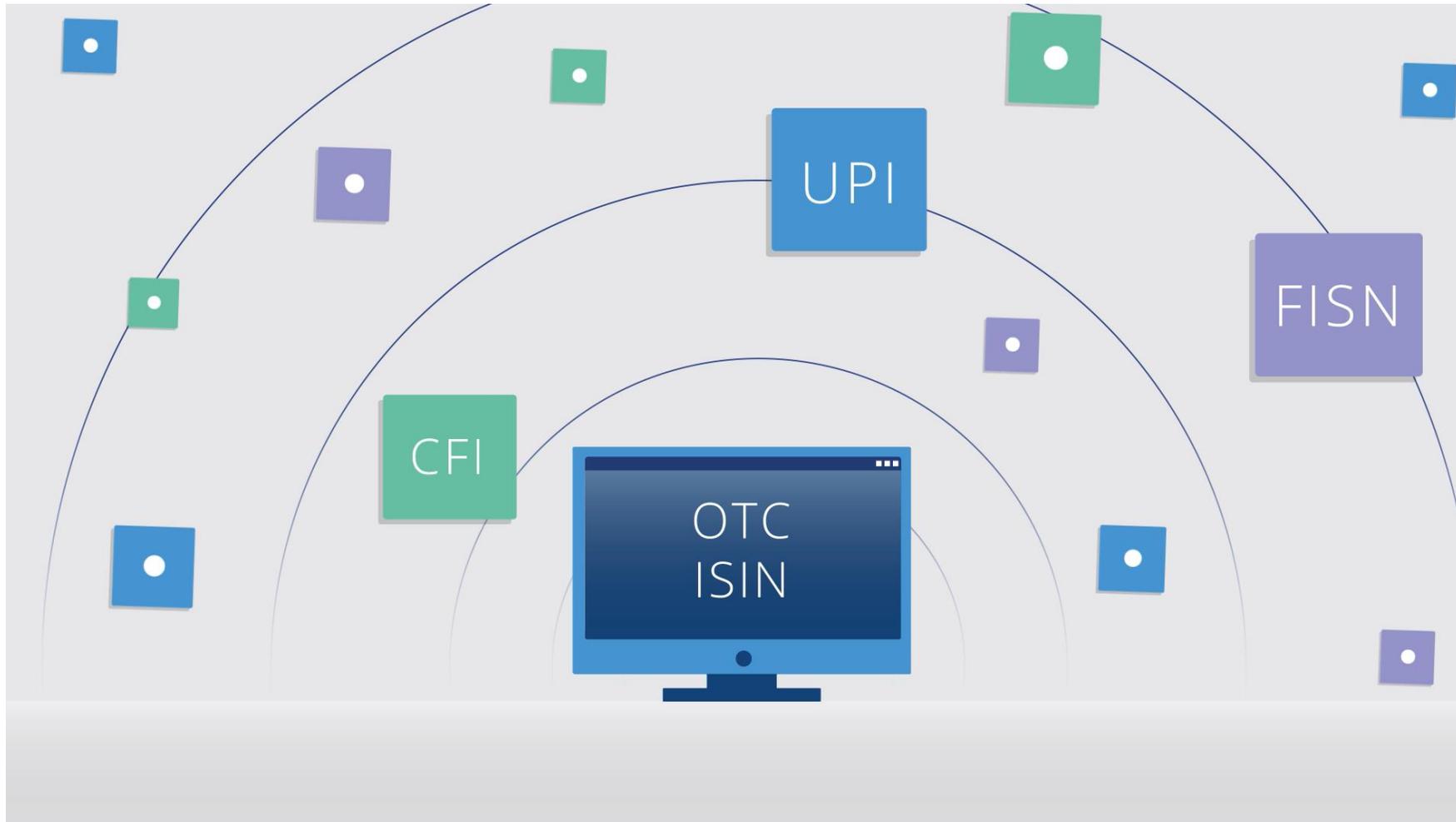
This section has been left blank as an opportunity for respondents to provide feedback and commentary on any other aspects they believe should be considered.

9. PROPOSED FORMAT FOR INDUSTRY RESPONSE

- Designed to consolidate industry feedback in a scalable manner
- Consultation responses to be completed using the form available [here](#) and emailed to industry_consultation@anna-dsb.com
- Stipulate whether the respondent wishes the response to be treated as anonymous. Note that all responses are published on the DSB website and are not anonymized unless specific requests are made
- Where applicable, responses should include specific and actionable alternative solution(s) that would be acceptable to the respondent in order to ensure that the DSB can work to reflect the best target solution sought by industry as a whole (within the governance framework of the utility)
- **Responses must be received by 5pm UTC on Friday 5th March 2021**
- All consultation related queries should be directed to industry_consultation@anna-dsb.com

10. FURTHER INFORMATION

- Queries about the UPI consultation documentation and process: industry_consultation@anna-dsb.com
- All other UPI queries: otc.data@anna-dsb.com
- UPI overview and associated information: <https://www.anna-dsb.com/upi/>
- Information about the DSB Product Committee: <https://www.anna-dsb.com/product-committee/>
- Information about the DSB Technology Advisory Committee: <https://www.anna-dsb.com/technology-advisory-committee/>



Thank you!