The Derivatives Service Bureau's (DSB) response to FCA CP 23/32

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Executive Summary

The Derivatives Service Bureau (DSB) is the issuing agency and service provider for both the Unique Product Identifier (UPI) and the ISIN for OTC derivatives (OTC ISIN).

The FCA's overarching proposal for OTC derivatives identifiers is to introduce a "UPI+" approach (UPI plus reporting of additional data elements separately) to facilitate transparency in tandem with continuing to report the OTC ISIN.

The UPI and OTC ISIN, together with the CFI, form the International Organization for Standardization (ISO) framework for OTC derivatives identifiers. The identifiers are complementary with different levels of granularity tailored to the different purposes for which they have been created. This holistic design is deliberate and in line with the CPMI-IOSCO UPI Technical Guidance which states that whilst the primary use case of the UPI is risk aggregation, "*the UPI could be leveraged to create other more granular derivatives identifiers for other purposes".*

The realisation of the G20 commitment to create the UPI is a significant achievement in bringing greater transparency to, and integration within, the OTC derivatives market. The UPI should, as per CPMI-IOSCO's recommendation and as the FCA recognises, be the foundation on which additional reporting use cases that require more data elements are built. The point the DSB wishes to emphasise is that the OTC ISIN exemplifies this approach: it is the UPI and '+' data elements inside a single ISO standard ISIN wrapper, where the elements have been harmonised enabling consistent interpretation and validation.

The FCA's proposed UPI+ approach is in effect a disaggregation of some data elements which are currently within an ISO standard wrapper and thus will lose the benefits of consistency and harmonisation whilst requiring changes to existing workflows and infrastructure.

The DSB strongly believes that the best solution which provides the benefits of the UPI and also addresses the current OTC ISIN implementation challenges is to modify the OTC ISIN design for benchmark interest rate swaps. Compared to the proposed UPI+ approach, this approach is:

- simpler to implement
- faster to market
- lower cost for industry
- higher in data quality and
- meets all of the FCA's stated objectives.

The DSB has already implemented the UPI into the OTC ISIN record. If the FCA introduces the modified ISIN, industry will not need to change its data flows and infrastructure and, where the UPI code itself is required (alone it is insufficient for transparency purposes), it can be accessed from the DSB's open-source data set of OTC ISIN records for free.

This Executive Summary provides an overview on the four key areas the DSB addresses in its response to explain why a targeted modification of the OTC ISIN is the best solution:

- Clarifications on the UPI and the OTC ISIN and their relationship to each other
- Proposal for a targeted modification of the OTC ISIN for transparency purposes
- Benefits of pursuing a modified ISIN approach
- Aligning additional data fields with market convention.

1. UPI and OTC ISIN clarifications

The DSB supports the use of UPI to achieve cross-jurisdiction harmonisation but does not agree with the rationale put forward to explain *why* the introduction of the new UPI field is necessary given that the OTC ISIN contains the UPI code and therefore also achieves the same result. The following clarifications and explanations provide a summary of the relationship between the OTC ISIN and the UPI:

- The difference between the OTC ISIN and the UPI is one of granularity: the ISIN is simply the UPI plus additional data elements (i.e. 'UPI+' in an ISIN wrapper).
- This difference is not due to shortcomings (paragraph 8.17, page 65 of CP23/32) within the ISIN standard but due to the purpose for which the identifier was designed:
    - The UPI was developed to identify the build-up of systemic risks at a global level.
    - The OTC ISIN was developed for market abuse detection and transparency purposes.
- The UPI is a product identifier, and the OTC ISIN is an instrument identifier:
    - The UPI standard explicitly references the ISIN as the ISO standard to use for instrument identification. ISO standard 4914, Section 3.1 defines **OTC derivative** under point 3.1: *'financial instrument that is, or would be, identified by an ISIN with the prefix "EZ" or "ZZ".*
    - EZ is the prefix used for OTC derivatives under the ISIN standard 6166. Note 1 to this definition cross references to the ISIN standard (ISO 6166): "*Details regarding how the prefix of an ISIN is determined can be found in ISO 6166:2021, Annex A.*"
- The OTC ISIN, tailored for the transparency and transaction reporting use cases, is an example of implementation of guidance from the CPMI-IOSCO UPI Technical Guidance that while the primary use case of the UPI is risk aggregation, "*the UPI could be leveraged to create other more granular derivatives identifiers for other purposes"*.
- The UPI and OTC ISIN form an identification hierarchy where:
    - the UPI's attributes are a subset of the OTC ISIN's attributes;
    - the attributes which the OTC ISIN and UPI share are identical; and
    - the corresponding UPI code is included in each OTC ISIN record.
- The OTC ISIN, as the more granular identifier, *does* differentiate between instruments (e.g. a 10-year swap traded today and a five-year forward-starting five-year swap and provides two different OTC ISIN codes - (paragraph 8.16, page 65 of CP23/32)). The less granular UPI does not.

The DSB provides more detailed explanations on these points in its response to Q43, considering this information is important for making a decision on the optimal approach for transparency data.

2. Proposal for a targeted modification of the OTC ISIN

Under paragraph 8.21, page 65 of CP23/32, the FCA refers to the European Commission's consultation on OTC derivatives identifier for public transparency purposes in which the European Commission sought views, among other things, on a 'modified ISIN' approach.

Under Q43, the DSB provides an explanation of what the 'modified ISIN' approach is and why the DSB considers this would be the optimal approach for providing high quality transparency data.

In brief, whilst the OTC ISIN design works well for many types of OTC derivatives, it does not facilitate price transparency for the category of swaps called 'benchmark (interest rate) swaps'. For these swaps, the **tenor** of the swap is more important than the expiry date. The OTC ISIN already includes one of the required tenors (the 'term of contract'). Therefore, the modification change would be limited to updating the OTC ISIN with the forward starting tenor so that for benchmark swaps, the expiry date would no longer be used.

For broken tenors contracts the OTC ISIN would remain the same, with the 'expiry date'' used. This mirrors market convention where traders refer to the start date and tenor / expiry date or the effective date and tenor/expiry date when trading a broken tenor contract.

Where the ISIN for the sub-asset class already enables price comparison, such as for Credit Default Swaps (CDS), no change is required, hence a more targeted approach.

The below table shows how the ISIN modification would work for a Single Currency Fixed Float Interest Rate Swap (IRS):

Single Currency Fixed Float Interest Rate Swap (IRS)			
Attributes in Record	**UPI**	**OTC ISIN Broken Tenors**	**OTC ISIN Benchmark**
IDENTIFIER CODE	QZ0B7849XHTK	EZGLM530HQ45	EZGLM530HQ45
UPI Code	-	✓	✓
Asset Class	✓	✓	✓
Instrument Type	✓	✓	✓
Underlying asset type	✓	✓	✓
Notional Schedule	✓	✓	✓
Single/ Multi-currency	✓	✓	✓
Delivery Type	✓	✓	✓
Notional Currency	✓	✓	✓
Reference Rate	✓	✓	✓
Ref Rate Term	✓	✓	✓
Term of Contract (Tenor)	×	✓	✓
Expiry Date	×	✓	×
Forward Starting Term	×	×	✓

3. Benefits of pursuing a modified OTC ISIN approach

The below table summarises the main reasons why the DSB considers that modifying the OTC ISIN in a targeted way is the optimal approach for providing high quality transparency data. These points are explained in more detail under Q43.

	Reasons for adopting modified OTC ISIN	Explanation
1	**Targeted approach which eliminates daily OTC ISIN creation**	Replacing Expiry Date with Forward Starting Tenor in the OTC ISIN for benchmark interest rate swaps (IRS) will eliminate the creation of new OTC ISINs for the same swap, meaning price comparison across a time series will be possible. Where the OTC ISIN for a sub-asset class already enables price comparison, e.g. CDS, no change is required.
2	**Provides higher data quality**	Attributes within an identifier have been harmonised, enabling consistent interpretation and validation. Attributes of tenor (versus dates) also result in a higher data accuracy rate (see section 4 below).
3	**Supports cross-jurisdictional harmonisation**	The OTC ISIN contains the UPI code.
4	**Leverages existing transparency infrastructure and workflows based on the OTC ISIN**	The only change required is the introduction of a new product template for benchmark interest rate swaps.
5	**Preserves cross-regulation consistency**	The OTC ISIN (including the modified OTC ISIN for benchmark swaps) can continue to be used in transaction reports and under EMIR
6	**Preserves cross-asset consistency**	The ISIN is used to identify other classes such as Exchange Traded Derivatives (ETDs) and underliers such as Bonds. Retaining OTC ISIN use for OTC derivatives provides a standard approach across all asset classes.
7	**Removes Intra-Day dependency on DSB**	With a single 'permanent OTC ISIN' that does not change daily, market participants will be able to obtain the OTC ISIN upfront to integrate into their workflows. Market participants trading benchmark swaps may not need to access the DSB or pay a subscription fee because they can obtain the existing OTC ISIN and reference data from DSB's end of day files (free with unrestricted use).
8	**Reduction in costs**	The reduction in volume of OTC ISIN issuance will result in lower IT and infrastructure costs for both industry and the DSB, through removal of the DSB from intraday workflows, and reduced exception handling and matching errors.
9	**Compatible with standardised human readable descriptor.**	The ISIN is compatible with the Financial Instrument Short Names (FISN) (ISO 18774) which provides a consistent approach to standardising short descriptions of essential information about financial instruments in a human readable format. The FISN is issued with each ISIN.
10	**Includes data elements which align with market practice** (see section 4 below)	Includes Contract Term and Forward Starting Term, data elements which reflect market practice: front office trades benchmark swaps based on terms/tenors.

4. Aligning additional data fields with market convention

Under Q45, the DSB welcomes the FCA's reference to '*the concept of tenor and effective date (equivalently, effective start date and expiry date)'* and sets out why the additional data fields to identify OTC derivatives should be the **contract tenor** and **forward starting tenor** for benchmark swaps. Using dates only – with no tenors - is not in line with firm usage or how end users refer to, and consume, transparency data for benchmark swaps. It also builds in a layer of complexity (requiring calculations), whilst resulting in a lower level of data quality.

The DSB also provides data analysis under Q45, based on DSB users' tenor and dates usage, to evidence that the majority of firms already use tenors for retrieving OTC ISINs within their reporting infrastructure and very few trading venues and investment firms use dates exclusively. Indeed many smaller trading venues and investment use tenors exclusively to retrieve OTC ISIN data from the DSB and therefore may be disproportionately impacted if the FCA were to mandate the use of dates for transparency publication:

Use of tenors is much more prevalent compared to use of dates		
All firms	**Trading Venues**	**Investment Firms**
Use **tenors** exclusively	**43%**	**24%**
Use **dates** exclusively	**0%**	**2%**
A switch to dates will disproportionately impact smaller organisations		
Lower activity firms (below 50th percentile)	**Trading Venues**	**Investment Firms**
Use **tenors** exclusively	**82%**	**31%**
Use **dates** exclusively	**0%**	**3%**

In summary, for benchmark swaps:

- for pre-trade, we understand that traders utilise tenor for price discovery;
- at the time of the trade, we understand traders negotiate based on the tenor; and
- at the point of interaction with the DSB, our data demonstrates that tenor is widely used.

The DSB understands that some market participants have stated a preference to use dates rather than tenors. We agree that dates are required within the trade lifecycle and that many firms' booking systems capture dates. However, our understanding is that dates are primarily useful in the post-trade life cycle of a transaction - for clearing as an example. Our understanding is that transparency is primarily driven by the pre-trade and trading phases where the use of tenors pre-dominate. Furthermore, the existing reporting infrastructures of firms and trading venues are primarily based on tenor, as demonstrated by our data. For example, when accessing the DSB for existing regulatory use cases such as post-trade transparency, most investment firms and almost all trading venues are currently requesting OTC ISINs based on tenor and not dates.

Our conclusion is that the path of least change and optimal price transparency is for firms to continue to use the tenor when identifying a benchmark swap.

The table below summarises the important benefits provided by using tenors to support price transparency which are not available if only dates are used.

	Benefits	Dates	Tenor	Comments
1	**Used by traders when performing their price discovery function**	**No**	**Yes**	Tenors are used by traders when performing their price discovery function for benchmark swaps. Dates are less relevant during price discovery and so less relevant to transparency though they play a useful part in the full trade lifecycle after the trade has taken place.
2	**Follows market convention**	**No**	**Yes**	Existing proprietary identifier implementation by data vendors, MTFs and SEFs in the US is based on tenors, not dates.
3	**Assures data quality and accuracy**	**No**	**Yes**	Calculating a date from the tenor can be implemented precisely. Calculating a tenor from the date cannot and opens up potential for higher error rates. E.g., when the date is on a Monday and the calculated term is a whole year + 1 day, there is no way to determine whether the instrument is a whole year swap or a broken dated swap containing the additional day. Mistaken publication lowers data quality and utility of price feed because broken dated swaps are priced differently to benchmark swaps.
4	**Creates meaningful price transparency across a time series**	**No**	**Yes**	Using tenors rather than dates creates meaningful price transparency across a time series whereas using dates which have not been converted into terms hampers price comparison across a time series.
5	**Provides end users with required information upfront**	**No**	**Yes**	Use of dates means a calculation is first required before end users use the information. Use of tenors means market participants involved in price discovery are provided with the information they need upfront without requiring additional calculation steps.
6	**Follows convention used in Clearing Obligation and Derivatives Trading Obligation**	**No**	**Yes**	The CO and the DTO refer to tenors, not dates. • FCA register for DTO: Register of Derivatives subject to the Trading Obligation • Bank of England register for CO: Public register for the clearing obligation (bankofengland.co.uk)

Q42: Do you prefer to remove the trade reporting field 'Instrument identification code type' and to include a requirement for trade reports to report on the field 'Instrument identification code' using only an ISIN code format, or retain the reporting on this field? Please explain your preferred approach.

We support removing the '*Instrument Identification Code Type (IICT)*' field.

We also propose renaming the '*Instrument Identification Code*' as 'ISIN' in the "Details" column so that the approach is consistent in specifying the codes (the UPI and ISIN) and limiting the format to the ISIN code.

As we note under Q44, the UPI has been developed to identify OTC derivatives. Therefore, if the new field for UPI is introduced, we suggest the FCA considers the following:

- For financial instruments, the scope is described as 'For **OTC** derivatives"
- Whether 'RM' is required under 'Type of execution/ publication venue' given the scope of the UPI is for OTC derivatives and we understand only Exchange Traded Derivatives are traded on RMs.

Q43: Do you agree with our proposal to introduce the new field "Unique product identifier"? If not, please explain why and set out your preferred approach to the identification of derivative instruments.

The realisation of the G20 commitment to create the UPI is a significant achievement in bringing greater transparency to, and integration within, the OTC derivatives market. The UPI should, as per CPMI-IOSCO's recommendation and as the FCA recognises, be the foundation on which additional reporting use cases that require more data elements are built.

The DSB does not, however, agree with the rationale put forward in CP 23/32 to explain why the introduction of the new UPI field is required for the transparency use case as in some instances, the UPI and OTC ISIN are not characterised correctly. The UPI and OTC ISIN, together with the CFI[1], form the ISO framework for OTC derivatives identifiers. The identifiers are complementary with different levels of granularity tailored to the different purposes for which they have been created. The OTC ISIN, created for market abuse detection and transparency purposes, is the UPI and '+' data elements inside a single ISO standard ISIN wrapper.

Under Section A below, we provide some clarifications and explain the relationship between the ISIN for OTC derivatives ('OTC ISIN') and the UPI.

[1] ISO 10962: Classification for Financial Instruments: The OTC Derivatives Identifier Framework Explained - DSB (anna-dsb.com)

Section A: UPI and OTC ISIN clarifications

1. UPI-ISIN alignment: ISIN instrument identifier includes UPI product identifier

Paragraph 8.18, page 65 of CP23/32: *"UPI is, since October 2020, overseen by a Regulatory Oversight Committee, comprised of global markets regulators, indicating their support for it as an instrument identifier. It is starting to be introduced under regulatory regimes. As part of work with the Bank of England on changes to reporting requirements under UK European Market Infrastructure Regulation (UK EMIR), UK EMIR, PS23/2 requires that for reporting purposes, derivatives that are not: (i) admitted to trading; (ii) ToTV; or (iii) on a SI; need to be identified with UPIs."*

Within the ISO framework for OTC derivatives identifiers, the UPI is not an instrument identifier but a product identifier (as stated later in CP23/32 under paragraph 8.23). The more granular OTC ISIN is the instrument identifier for OTC derivatives.

This distinction is very important for transparency purposes because products do not have a price whereas instruments do. To provide a concrete example: the UPI standard defines the entire GBP interest rate swap curve as a single product and assigns the same UPI code to the entire GBP swap curve. In contrast, the OTC ISIN defines each individual GBP swap as an instrument, thereby allowing unique identification of the swap being priced and traded (e.g. the GBP 10Y benchmark swap).

The UPI standard explicitly references the ISIN as the ISO standard to use for instrument identification.

- ISO standard 4914, Section 3.1 defines '**OTC derivative'** under point 3.1: *'financial instrument that is, or would be, identified by an ISIN with the prefix "EZ" or "ZZ".*
- EZ is the prefix used for OTC derivatives under the ISIN standard 6166. Note 1 to this definition cross references to the ISIN standard (ISO 6166): "*Details regarding how the prefix of an ISIN is determined can be found in ISO 6166:2021, Annex A."*

Furthermore, CPMI-IOSCO in its UPI Technical Guidance (page 3), explicitly envisioned wrapping the UPI into a more granular identifier such as the ISIN for use cases other than risk aggregation: "*the UPI could be leveraged to create other more granular derivatives identifiers for other purposes"*.

Therefore the incorporation of the OTC ISIN for use cases such as transparency and transaction reporting provides consistency with recommendations from both the relevant international technical standards setting organisation (ISO) and also the relevant international regulatory standards setting organisations (CPMI and IOSCO).

Concretely, this means the UPI code and UPI attributes are included in each OTC ISIN record. Figure 1 is a screenshot of an OTC ISIN record, showing the UPI code included in the OTC ISIN record

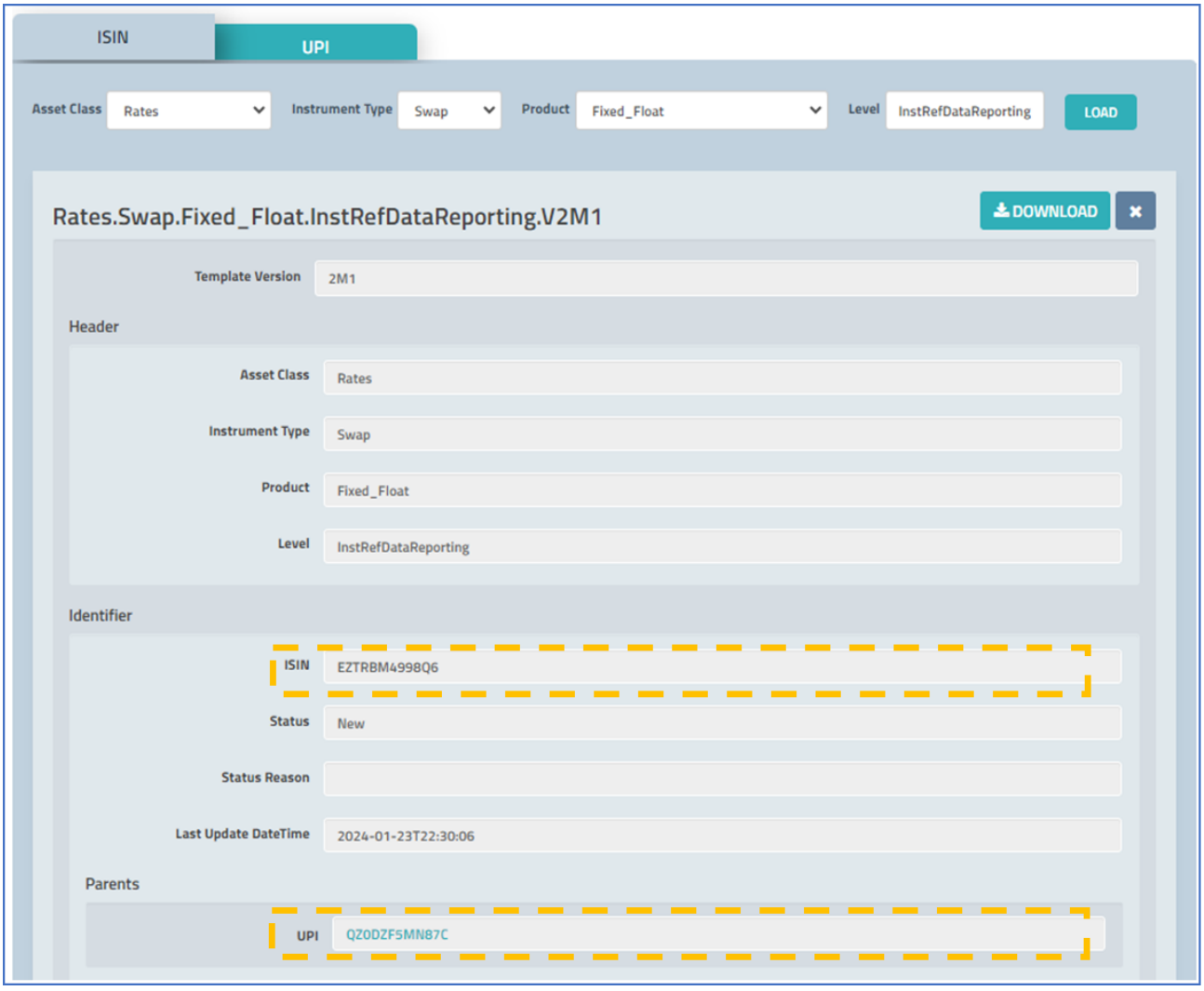

Figure 1: DSB user interface screenshot of the top half of an OTC ISIN record, showing the inclusion of the corresponding UPI code and attributes within the record

2. UPI & OTC ISIN share same attributes: relevant fields identified by FCA exist in both identifiers

Paragraph 8.17, page 65 of CP23/32 states: *"The UPI standard is a potential solution to the shortcomings inherent within the ISIN standard. UPI is described under International Organization for Standardization (ISO) 4914. The reportable fields include those which are relevant for the OTC derivatives asset class including fields identifying option specifications, reference rates and underlying asset specifications."*

The DSB supports the FCA's view that the attributes within the UPI are necessary to identify a swap. We also note that these same attributes also exist in the OTC ISIN and therefore these attributes do not support using one identifier over the other. However, while the UPI attributes are necessary, they are not sufficient. Only the OTC ISIN has all the UPI attributes plus the additional attributes to uniquely identify the swap being priced and traded.

The difference between the OTC ISIN and the UPI is one of granularity: the OTC ISIN is simply the UPI plus additional data elements (see Table 1 below). This difference is not due to

shortcomings within the ISIN standard but due to the purpose for which the identifier was designed:

- The UPI has been developed to help identify the build-up of systemic risks at a global level, identifying the OTC derivative at underlying product level.
- The OTC ISIN has been developed for market abuse detection and transparency purposes.

The DSB issues both the UPI and OTC ISIN and in collaboration with regulators, ISO, and industry, ensured that the OTC ISIN and UPI are consistent and complementary. Concretely, this means that:

- the UPI's attributes are a subset of the OTC ISIN's attributes;
- the attributes which the OTC ISIN and UPI share are identical; and
- the corresponding UPI code is included in each OTC ISIN record (see Figure 1).

The complementary design of the OTC ISIN and UPI is entirely in line with the CPMI-IOSCO's UPI Technical Guidance which states that whilst the UPI has been defined for a specific purpose, the UPI could serve other purposes as the basis for a more granular identifier.

"The CPMI and IOSCO intend only to define the technical requirements for a UPI for the unique identification of OTC derivative products in transactions reported to TRs and the eventual global aggregation of these data. The CPMI and IOSCO are conscious that a UPI could serve purposes other than this, such as other forms of regulatory reporting specific to particular jurisdictions, or pre- and post-trade processes performed by market participants and financial market infrastructures. These other uses could imply an identifier with more granular reference data than that required for the regulatory use cases." (Page 3).

Knowing the UPI was on the horizon, when the EU decided to use the OTC ISIN for EU regulatory reporting under MiFIR, the DSB, regulators, industry and ISO ensured the OTC ISIN design aligned with the UPI from the outset.

3. OTC ISIN uniquely identifies different instruments

Paragraph *8.16, page 65 of CP23/32* states *"…it is also possible that the same ISIN is used for different OTC derivative instruments. For example, as 'effective date' is not a required attribute for an IRS, a ten-year swap traded today will have the same ISIN as a five-year forward-starting five-year swap with the same attributes".*

The statement in CP23/32 is incorrect. The OTC ISIN does differentiate between a 10-year swap traded today and a five-year forward-starting five-year swap, and provides two different OTC ISIN codes. It is the UPI which does not differentiate between these two contracts because the purpose of the UPI is not to uniquely identify the swap but rather to uniquely identify the swap curve. As such, the UPI does not include the term of contract (also known as the 'tenor') attribute, or for that matter, the forward term, both being crucial data elements for transparency.

Table 1 (below) sets out the attributes in the records for the existing OTC ISIN and the UPI for a 10-year swap traded 'today' (with 'today' taken as 24 January 2024) and a five-year forward-starting five-year swap. The table illustrates that:

- two different OTC ISIN codes are generated, based on the different Term of Contract values; and
- the UPI code for these two instruments is the same.

Single Currency Fixed Float Interest Rate Swap (IRS)				
Attributes in Record	OTC ISIN		UPI	
	10YR swap traded today (e.g. 24/01/2024)	5YR forward-starting 5YR swap	10YR swap traded today (e.g. 24/01/2024)	5YR forward-starting 5YR swap
OTC ISIN Code	EZTRBM4998Q6	EZN189MNCLV9	X	X
UPI Code	QZ0DZF5MN87C	QZ0DZF5MN87C	QZ0DZF5MN87C	QZ0DZF5MN87C
Asset Class	Rates	Rates	Rates	Rates
Instrument Type	Swap	Swap	Swap	Swap
Underlying asset type	Fixed-Float	Fixed-Float	Fixed-Float	Fixed-Float
Notional Schedule	Constant	Constant	Constant	Constant
Single/ Multi-currency	Single	Single	Single	Single
Delivery Type	Cash	Cash	Cash	Cash
Notional Currency	EUR	EUR	EUR	EUR
Reference Rate	EUR-EURIBOR	EUR-EURIBOR	EUR-EURIBOR	EUR-EURIBOR
Ref Rate Term	6 MNTH	6 MNTH	6 MNTH	6 MNTH
Term of Contract	10 YEAR	5 YEAR	X	X
Expiry Date	26/01/2034	26/01/2034	X	X

Table 1: attributes for a 10-year swap traded 'today' and a five-year forward-starting five-year swap for an OTC ISIN and a UPI

4. OTC ISIN and UPI+ approaches both preserve cross jurisdictional harmonisation

Paragraph 8.21, page 65 of CP23/32 states: "*UPI is also being adopted as the identifier of certain financial instruments for regulatory reporting purposes in the USA and jurisdictions in Asia. In the EU, UPI was mandated under EMIR Refit. In November 2023, the European Commission issued a targeted consultation on OTC derivatives identifier for public transparency purposes. Within its consultation, the Commission sought views from respondents about their preference of either a 'UPI+' or 'modified ISIN'. ANNA DSB intends to launch the UPI service from 24 January 2024, following the publication of a CFTC designation order confirming the UPI will be required in recordkeeping and swap data reporting in the US.*"

The DSB completed the exercise[5] of adding the UPI into each and every existing OTC ISIN record in January 2024. Going forward, a UPI is always added to each new OTC ISIN meaning every OTC ISIN record contains the parent UPI code and attributes. The ISIN record is maintained by the DSB on an open-source basis. Therefore cross-jurisdiction harmonisation can be achieved by either including the UPI as its own separate attribute reporting field – as proposed by the FCA - or by market participants accessing the UPI code from the open-source OTC ISIN record maintained by the DSB at no cost.

The DSB notes the FCA reference to the use of the UPI code in the US for transparency purposes. We have provided our observations on the relative differences between the two jurisdictions below

which we believe demonstrates why for the UK the OTC ISIN provides consistency with the US and in addition higher data quality than the use of UPI:

A key difference between the two jurisdictions is that the US does not use the ISIN for any other regulation, either for other asset classes or for OTC derivatives. Indeed, before Jan 2024, the US did not mandate the use of any identifier for OTC derivatives. In this context, the DSB supports the use of UPI in the US for the transparency use case as a major step forward, because it has enabled the US to replace multiple data elements by a single UPI code. The wrapping of these data elements into a single identifier increases data quality through increased standardisation, as explained elsewhere in the DSB response.

The situation in the UK is different: The UK has been mandating the use of ISINs in regulations for OTC derivatives and also for other asset classes for many years. In direct contrast to the US, the replacement of the ISIN with the UPI in the UK will result in lower data quality in the UK because the UK already has all the UPI attributes wrapped within the OTC ISIN identifier, as well as the additional data elements to identify the contract term and forward term. The removal of these additional data elements will reduce data quality in the UK compared to the current baseline.

We welcome the FCA's reference to the 'modified ISIN' approach on which the European Commission consulted below and appreciate the timing of this recent proposal did not permit further development in CP23/32. We elaborate further on this proposal below as we believe implementing the modified ISIN in both the EU and UK would provide the optimal approach to providing high quality transparency data in both jurisdictions, whilst preserving cross-jurisdictional harmonisation.

We would also like to clarify that the DSB launched its UPI live service on 16 October 2023.

Section B: Preferred approach for transparency purposes: modify the OTC ISIN

1. Daily ISIN issue is confined to benchmark swaps

Paragraph 8.15, page 65 of CP23/32 states: "*For OTC derivatives, new ISINs must be generated every day. This stems from the reference data fields required against the ISIN changing every day, for example a derivative instrument's expiry date. So, a single type of OTC derivative instrument may have multiple ISINs.*"

The OTC ISIN design works well for many types of OTC derivatives. However, the OTC ISIN does not facilitate price transparency for the category of swaps called 'benchmark swaps'. For these swaps, the **tenor** is more important than the expiry date.

An example of a benchmark swap is the "*EUR 10 Year Interest Rate Swap Starting in 5 Years*". In this case, the two elements that identify the swap are two tenors (10 Years for the contract term and 5 Years for the forward starting term).

The current OTC ISIN design results in new ISINs being issued for these benchmark swaps every day, as the ISIN design incorporates the expiry date, even for benchmark swaps. Because the expiry date changes every day, a new OTC ISIN needs to be issued for the benchmark swap. This daily ISIN issuance prevents easy price comparison across a time series. This occurs for certain OTC derivatives sub-asset classes, in particular, for Interest Rate Swaps (IRS). However, it does not occur, for example, for Credit Default Swaps (CDS). In these cases, no change is required.

2. Modify the OTC ISIN for benchmark swaps in line with market convention

The DSB considers the simplest solution would be to modify the OTC ISIN design to cater explicitly for the category of benchmark swaps.

The OTC ISIN already includes one of the required tenors (the 'term of contract'). Therefore the change would be limited to updating the OTC ISIN with the forward starting term. For benchmark swaps, the expiry date would no longer be used. This design would allow the DSB to issue a single unchanging OTC ISIN code for benchmark swaps such as the "*EUR 10 Year Interest Rate Swap Starting in 5 Years*".

This approach would also align with market convention: derivative traders use tenors to identify benchmark swaps, not the expiry date. Therefore a further benefit of this approach is that traders can continue to use market convention when referencing the benchmark swap via the OTC ISIN for transparency purposes.

For broken tenor contracts, the OTC ISIN would remain the same, with the 'expiry date' used. This mirrors market convention where traders refer to the start date and tenor / expiry date or the effective date and tenor/expiry date when trading a broken tenor contract.

Table 2 shows how this modification would work for a Single Currency Fixed Float Interest Rate Swap (IRS):

- the ISIN for broken tenors remains the same, using the 'expiry date';
- the ISIN for benchmark swaps is modified to replace the 'expiry date' attribute with the 'forward starting term' attribute.

Single Currency Fixed Float Interest Rate Swap (IRS)			
Attributes in Record	**UPI**	**OTC ISIN Broken Tenors**	**OTC ISIN Benchmark**
IDENTIFIER CODE	QZ0B7849XHTK	EZGLM530HQ45	EZGLM530HQ45
UPI Code	-	✓	✓
Asset Class	✓	✓	✓
Instrument Type	✓	✓	✓
Underlying asset type	✓	✓	✓
Notional Schedule	✓	✓	✓
Single/ Multi-currency	✓	✓	✓
Delivery Type	✓	✓	✓
Notional Currency	✓	✓	✓
Reference Rate	✓	✓	✓
Ref Rate Term	✓	✓	✓
Term of Contract (Tenor)	×	✓	✓
Expiry Date	×	✓	×
Forward Starting Term	×	×	✓

Table 2: Example of OTC ISIN modification for a Single Currency Fixed Float IRS

The discussion on modifying the OTC ISIN focuses on benchmark swaps given these are in scope of category 1. The DSB notes that there are other OTC derivatives sub-asset classes which exhibit the characteristic of daily OTC ISINs. The DSB is ready to support modifying the OTC ISIN for these sub-asset classes too should regulators and industry require it, noting the same approach as described above would be suitable.

3. Why modifying the OTC ISIN is the DSB's preferred approached

3.1 Targeted approach which eliminates daily OTC ISIN creation: The removal of the Expiry Date from the OTC ISIN for benchmark interest rate swaps (IRS) will eliminate the creation of new OTC ISINs for the same swap. E.g, the EUR 5Yr 5Yr Forward IRS will have a single OTC ISIN that never changes, meaning price comparison across a time series will be possible. Where the OTC ISIN for the sub-asset class already enables price comparison (e.g. CDS), no change is required, hence a more targeted approach.

3.2 Provides higher data quality: Data quality will be higher if the '+' attributes are within the OTC ISIN 'wrapper' because the attributes have been harmonised enabling consistent interpretation and validation.

ESMA's response to the European Commission's consultation on OTC derivatives identifiers for transparency noted that data quality is higher with less data points. ESMA included analysis of June 2023 EMIR data showing the rate of consistent reporting between both counterparties' submissions to a trade repository was higher with less data points (Page 5):

- **88%**: consistency rate of 3 key data elements (the identifiers of each counterparty & the identifier of the derivative traded).
- **63%**: consistency rate of reporting other data, including reference data (e.g. asset class, contract type, etc.).

3.3 Supports cross jurisdictional harmonisation

Both the UPI+ and OTC ISIN approaches provide the main benefit of the UPI, which is cross jurisdictional harmonisation among G20 countries. The OTC ISIN contains the UPI code.

3.4 Leverages existing transparency infrastructure and workflows based on the ISIN:

Modifying the OTC ISIN leverages the existing ISIN infrastructure and workflows already built by industry and the FCA for MiFIR transparency.

The only change required is a new product template, specifically for benchmark interest rate swaps. No change is required to the ISIN standard itself. No additional data elements need to be published to identify the swap, meaning industry system changes are kept to a minimum.

The DSB, industry and regulators have several years' experience in managing the introduction of such new product templates and a new or changed product template is now a business-as-usual item with established processes and decision-making for handling the

change (such as deciding whether existing OTC ISINs should be deprecated or continue to be used etc).

Since the start of MiFID II in 2018, the DSB has overseen the introduction of 24 new product templates.

3.5 Preserves cross-regulation consistency: The UK and EU today use the OTC ISIN in three sets of reporting rules: for price transparency and market abuse detection under MiFIR and aggregation of OTC derivatives data for systemic risk monitoring under EMIR. The DSB appreciates that the UK authorities are in the process of revising the UK MiFIR and UK EMIR rules on-shored from the EU and uses these terms noting they may be replaced in the future.

The implementation of UPI reporting in the UK from September 2024 under EMIR has been calibrated to preserve cross-regulation consistency when using an OTC derivatives identifier. The OTC ISIN is reported under EMIR for OTC derivatives that are also subject to MiFIR reports to reduce the reporting burden i.e. where a trade requires an ISIN, to meet transparency and market abuse reporting obligations, the same identifier is used to meet the EMIR reporting obligation.

The scope of OTC derivatives reporting under EMIR is wider than MiFIR, however. Therefore, an OTC ISIN is not required under MiFIR for OTC derivatives where neither they nor the underlier are traded on a trading venue. Currently under EMIR, the Classification of Financial Instruments (CFI) code is used for this set of OTC derivatives. From September 2024, the UPI code will be used.

Table 3 provides a high level summary of which identifier will be used in the UK for which OTC derivatives reporting requirement from September 2024.

SCOPE	MiFIR Transparency Reporting	MiFIR Transaction Reporting	EMIR Systemic Risk Reporting
Timing of Report	**Near real time unless deferral**	**T+1**	**T+1**
OTC derivatives subject to currentMiFIR transaction reporting scope. *Transparency rules apply to a subset of these OTC derivatives.*	**ISIN**	**ISIN**	**ISIN**
OTC derivatives not subject to MiFIR transaction reporting scope. (Not traded on a trading venue/ underlier not traded on a trading venue)	X	X	**UPI**

Table 3: overview of identifiers to be used for OTC derivatives reporting in UK from September 2024

3.6 Preserves cross-asset consistency: The UK and EU use the ISIN to identify other classes such as Exchange Traded Derivatives (ETDs) and underliers such as Bonds. Retaining ISIN use for OTC derivatives provides a standard approach across the asset classes.

3.7 Removes Intra-Day Dependency on the DSB: The creation of a single 'permanent OTC ISIN' that does not change daily means market participants will be able to obtain the identifier

upfront to integrate into their workflows where the OTC ISIN already exists, rather than create a new one on the day and use 'on the fly'.

A further potential benefit to industry is that market participants trading benchmark swaps may not need to access the DSB or pay a subscription fee because they can obtain the existing OTC ISIN and reference data from DSB's end of day files (free and unrestricted use).

3.8 Reduces Costs: The reduction in OTC ISINs will result in lower IT and infrastructure costs for both industry and the DSB through removal of the DSB from intraday workflows and reduced exception handling and matching errors as a result of lower ISIN issuance volumes.

3.9 Compatible with existing ISO standard Human-Readable descriptor: Identifying reference data in both human readable and machine readable format is vital so that end users can choose how they consume the data.

The Financial Instrument Short Names (FISN) (ISO 18774) has been developed by ISO to provide a consistent approach to standardising short descriptions of essential information about financial instruments in a human readable format. The FISN is compatible with, and assigned concurrently with, the ISIN to enable human-readability of the instrument without having to link the ISIN code back to the reference data. The DSB is the FISN issuer for OTC derivatives in line with being the issuer of the OTC ISIN and can work with ISO and market participants to adapt the FISN issuance to meet the industry's need for a human readable, standardised descriptor should this be required.

Q44: Do you agree with our proposal to set the scope of the use of UPI to OTC derivatives? If not, please describe the scope of instruments to which you would prefer for it to apply.

Yes: As per the ISO 4914 standard, the UPI has been developed to identify OTC derivatives for the purpose of aggregating risk at a global level to assist regulators identify the build-up of systemic risk. In its UPI Technical Guidance, CPMI-IOSCO states (page 1): "*The role of the UPI is to uniquely identify each OTC derivative product involved in a transaction that an authority requires, or may require in the future, to be reported to a TR (trade repository*".

The scope of instruments to which the UPI applies is defined by the CFI codes for OTC derivatives, issued by the DSB, that start with:

- 'S' (Swaps),
- 'H' (Non-Listed and Complex Listed Options),
- 'J' (Forwards) and
- 'MMSXXX' (Other OTC Derivatives).

Q45: Do you agree with our proposal to introduce the additional data fields enhancing the UPI to identify an instrument? If so, please detail what data fields additional to the UPI should be included under the trade reporting requirement.

The FCA's consultation on additional data fields, like the European Commission's consultation, appreciates that the UPI alone is insufficient for transparency purpose and, in specifying a data element for IRS only and another for CDS only, recognises that a different set of elements needs to be defined for each sub-asset class.

Firstly, it is important to make a distinction between:

- reference data which identifies the OTC derivative itself and so should be included in the OTC ISIN as an instrument identifier; and
- additional data elements which are useful for providing context about the price, for example, price flags, used in reporting.

With respect to the additional data fields identified by the FCA - dates/tenors, LEI CCP, spread on floating leg of IRS and upfront payments forming part of CDS transactions - dates/tenors are part of an OTC derivative's identifying reference data and the other data elements provide further context on price.

We support wrapping the UPI and attributes of dates/tenors – which identify the OTC derivative at instrument level - within the OTC ISIN. If the data elements are within the OTC ISIN, participants can rely on the DSB to integrate them, reducing implementation requirements. In particular, we support using the **contract tenor** and **forward starting tenor** as data fields for benchmark swaps for the following key reasons:

- Using dates only – with no tenors - is not in line with how end users refer to, and consume, transparency data for benchmark swaps: see point 1 below;
- Using dates alone builds in a layer of complexity, whilst not resulting in the highest level of data quality achievable: see point 2 below; and
- The DSB's data analysis evidences that the majority of market participants use tenors over dates when provided with the two options: see point 3 below.

1. Market conventions differ for benchmark swaps and broken tenors

The FCA proposes to apply transparency rules to both whole year tenors (e.g. 1 year, 5 year…) also known as 'benchmark swaps' and to broken tenors e.g. 1 year 13 days...). As we note under Question 43, Section B, benchmark swaps and broken dated swaps have different market conventions:

- Traders refer to the **tenor** when trading a benchmark contract: e.g. "10 yr" for a spot start or "5yr/10yr" for a forward start;
- Traders refer to the **start date and tenor / expiry date** or **the effective date and tenor/expiry date** when trading a broken tenor contracts: e.g. 30/March/24 start for 5yr or 30/March/24 start expiring on 30/March/29.

This impacts which data elements should be reported, particularly if data quality is of paramount concern.

2. Deriving date from tenor is simpler and results in higher data quality

Operationally, calculating dates from tenors is much easier than calculating tenors from dates and results in higher data quality.

- **Calculating a date from a tenor can be implemented precisely**. It requires applying the tenor (e.g. 1 year) to the date (i.e. what is the date 1 year in the future?). If the date falls on a weekend or holiday, the date is moved forward to the first subsequent working day.
- **Calculating a tenor from the date cannot be implemented precisely**. E.g. when the date is on a Monday and the calculated term is a whole year + 1 day, there is no way to determine whether the instrument is a whole year (benchmark) swap or a broken dated swap containing the additional day. Mistaken publications lower data quality because broken dated swaps are priced differently to benchmark swaps.

3. DSB data shows user preference to use tenor over effective date

A user can retrieve an OTC ISIN from the DSB for an interest rate swap using either a tenor or a date. The DSB has analysed this data for patterns of preference and our analysis shows that:

- Use of tenors is much more prevalent compared to use of dates: and
- Smaller organisations overwhelmingly use tenors, rather than dates, and hence a switch to dates would disproportionately impact them.

Use of tenors is much more prevalent compared to use of dates		
All firms	**Trading Venues**	**Investment Firms**
Use **tenors** exclusively	**43%**	**24%**
Use **dates** exclusively	**0%**	**2%**
A switch to dates will disproportionately impact smaller organisations		
Lower activity firms (below 50th percentile)	**Trading Venues**	**Investment Firms**
Use **tenors** exclusively	**82%**	**31%**
Use **dates** exclusively	**0%**	**3%**

Table 4: summary of DSB data analysis of DSB users' tenors and dates usage

The pie charts on the next pages provide a further breakdown of this information.

In summary, for benchmark swaps:

- for pre-trade, we understand that traders utilise tenor for price discovery;
- at the time of the trade, we understand traders negotiate based on the tenor; and
- at the point of interaction with the DSB, our data demonstrates that tenor is widely used.

The DSB understands that some market participants have stated a preference to use dates rather than tenors. We agree that dates are required within the trade lifecycle and that many firms' booking systems capture dates. However, our understanding is that dates are primarily useful in the post-trade life cycle of a transaction - for clearing as an example. Our understanding is that transparency is primarily driven by the pre-trade and trading phases where the use of tenors pre-

dominate. Furthermore, the existing reporting infrastructures of firms and trading venues are primarily based on tenor, as demonstrated by our data. For example, when accessing the DSB for existing regulatory use cases such as post-trade transparency, most investment firms and almost all trading venues are currently requesting OTC ISINs based on tenor and not dates.

Our conclusion is that the path of least change and optimal price transparency is for firms to continue to use the tenor when identifying a benchmark swap.

TRADING VENUES:

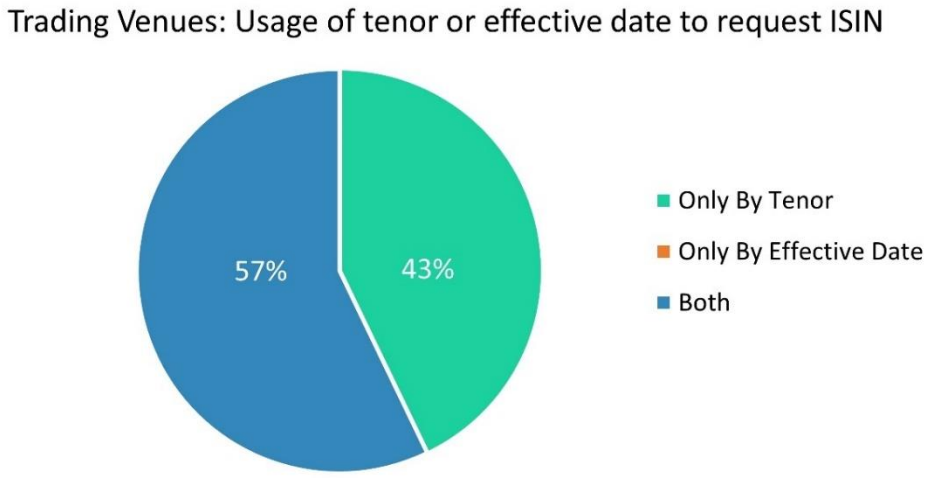

Chart 1: All trading venues' usage of tenors and dates

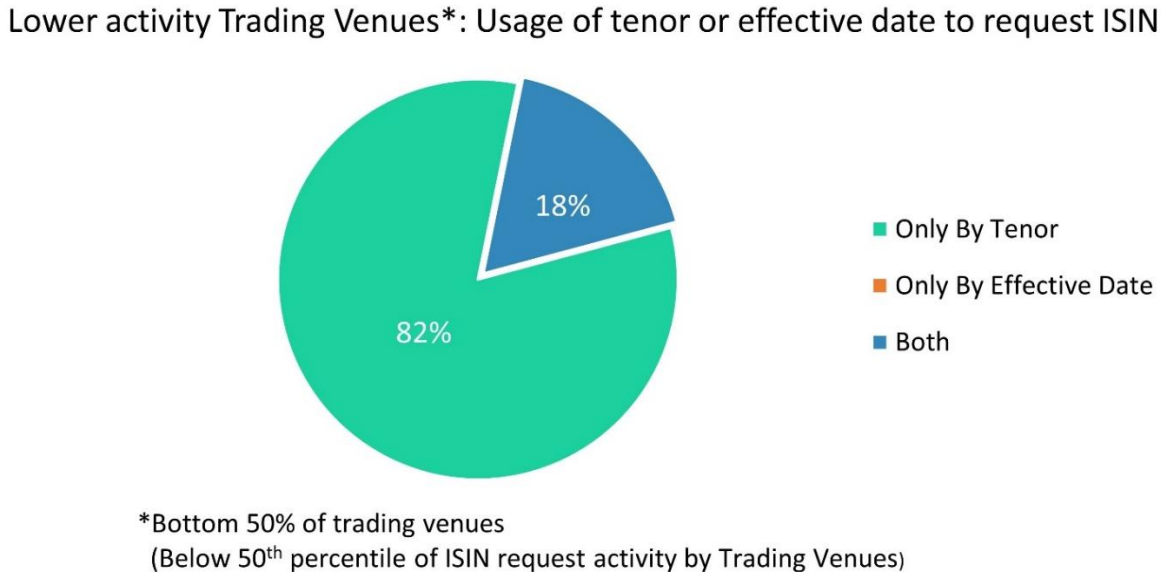

Chart 2: Lower activity trading venues' usage of tenors and dates

INVESTMENT FIRMS

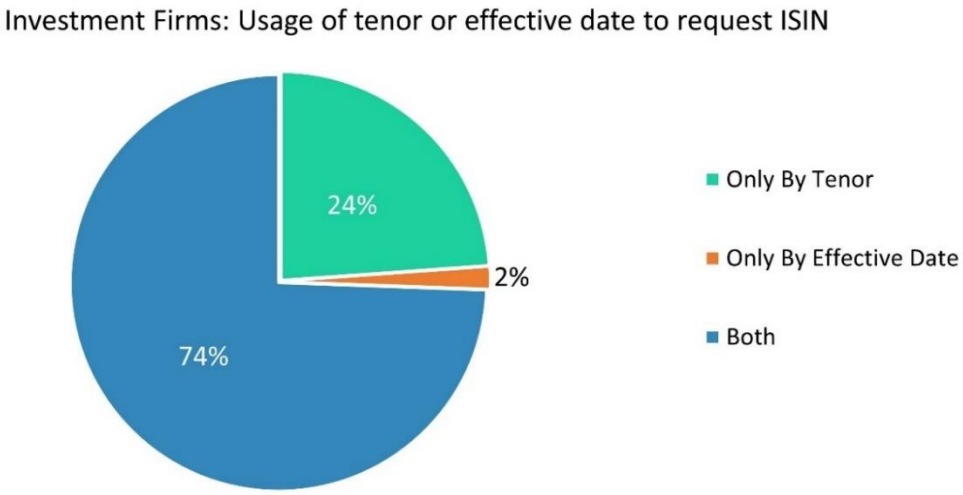

Chart 3: All investment firms' usage of tenors and dates

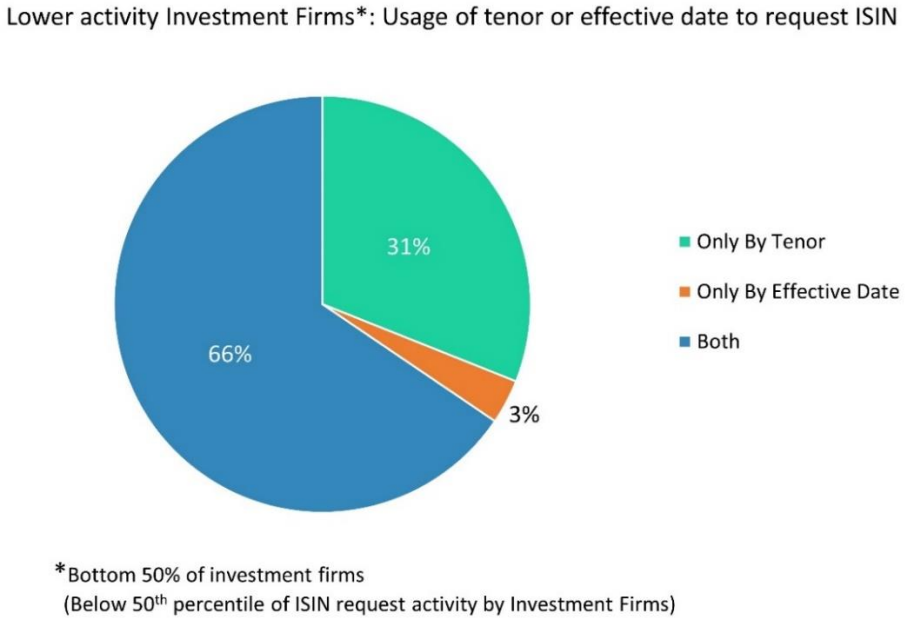

Chart 4: Lower activity investment firms' usage of tenors and dates

4. Attributes differ for each sub-asset class

Attributes are different for each sub-asset class of OTC derivatives which means the '+' part of a UPI+ approach would need to be defined for each sub-asset class. (The DSB's Explainer[2] shows the attributes for a range of OTC derivatives, including for IRS and CDS).

If the UPI+ approach were to be enlarged to other sub-asset classes beyond IRS and Index CDS (category 1 instruments), a set of attributes would need to be defined for each one. The benefit of the OTC ISIN is that participants can rely on the DSB to integrate the agreed additional data elements on their behalf, reducing implementation requirements.

Table 5 shows the different attributes within the OTC ISIN and the UPI for the an IRS and Index CDS.

Single Currency Fixed Float Interest Rate Swap (IRS)			Index Credit Default Swap		
Attributes	OTC ISIN	UPI	Attributes	OTC ISIN	UPI
Asset Class	✓	✓	Asset Class	✓	✓
Instrument Type	✓	✓	Instrument Type	✓	✓
Underlying asset type	✓	✓	Underlying asset type	✓	✓
Notional Schedule	✓	✓	Return or payout trigger	✓	✓
Single/ Multi-currency	✓	✓	Underlying issuer type	✓	✓
Delivery Type	✓	✓	Delivery Type	✓	✓
Notional Currency	✓	✓	Underlying Index	✓	✓
Reference Rate	✓	✓	Underlying Index Term	✓	✓
Reference Rate Term	✓	✓	Underlying Index Series	✓	✓
Term of Contract	✓	×	Underlying Index Version	✓	✓
Expiry Date	✓	×	Notional Currency	✓	×
-	-	-	Expiry Date	✓	×

Table 5: OTC ISIN and UPI attributes for an IRS and Index CDS

5. Additional data field for LEI of CCP

We agree that the LEI of the CCP where the swap will be cleared is a useful data element, as this can have an impact on the price.

Unlike for the attributes of tenors, we do not recommend adding the CCP LEI within the definition of the instrument identifier (OTC ISIN) because its inclusion will make cross-CCP price discovery more difficult. For example, market participants will prefer a single instrument identifier to represent the EUR 5Y Interest Rate Swap, in order to compare prices across CCPs. Incorporating the LEI of the CCP inside the identifier will hinder such price discovery because there will be two identifiers representing the same EUR 5Y IRS, depending on where the swap is cleared.

[2] https://www.anna-dsb.com/download/the-otc-derivatives-identifier-framework-a-closer-look/

6. IRS and CDS specific attributes

The proposed fields provide additional context to market participants to interpret the price and, on balance, are helpful.

Q46: Would the introduction of UPI have an impact upon the costs incurred by your firm? If so, please explain how and try to estimate the impact.

Para 6.9 of CP 23/32 Page 56: *We shall review and interrogate any such evidence as well as performing our own analysis of the outcomes. Within a year of the commencement date of the new regime we shall complete a post implementation review and decide whether to propose a revision to the parameters of the transparency regime.*

The FCA can lower the cost by introducing the modified OTC ISIN. The DSB has already implemented the UPI into the OTC ISIN record. Therefore, if the FCA introduces the modified ISIN, the cost to industry is negligible as it has been borne by the DSB already. The data flows and infrastructure will not need to change and market participants can access the UPI code from the DSB's open-source data set of OTC ISIN records at no cost where they require it.

The FCA will undertake a post implementation review within one year of the new derivatives transparency regime coming in to force to determine whether revisions are required. During this period, if the FCA proceeds with the UPI+ approach, it will coexist with use of the OTC ISIN (as per para 8.10, page 64). This period will provide the FCA with valuable data which will enable it evaluate which approach provides the highest data quality. We have noted above, under Q43 Section B 3.2, that ESMA has undertaken analysis on whether the reporting rate consistency was higher when identifiers were used. We suggest the FCA undertakes its own analysis to evaluate which approach provides a higher consistency rate and higher data quality.

Q57: Do you agree with our proposal to amend Table 1 of Annex II of RTS 2? If not, please explain why and set out your preferred approach to the symbol table for the format to be populated for post-trade transparency trade reporting.

Para 8.66 to 8.67 of CP 23/32 page 81: "*Maintaining consistent formats in trade reporting is vitally important, to enable effective use of the data. Trade reporting is one significant part that contributes to the price formation process. This takes place in real time when markets are open for trading. Any impediment to this, for instance the need for users to clean and reinterpret nonconsistent data, would harm price formation. Prices may become unreliable while users attempt to understand which reported trades are and are not relevant in considering addressable liquidity and as a consequence confidence in executing trades may reduce. Cost considerations*

also exist, with users having to commit time and resources to clean non-consistent data for their use.

To this end, most of the fields encourage following standards set out by the International Organization for Standardization (ISO), where formats and conventions are well defined and generally accepted."

We agree with adding the CCP LEI into the symbol table. If the FCA introduces the modified ISIN, the UPI does not need to be added into the table as no change in data flows is required.

We note and agree with the FCA's explanation on the importance of maintaining consistent formats and that price formation is harmed by data which is non-consistent and requires cleaning and reinterpreting. We further note the statement that to this end, most fields encourage following ISO standards because the formats are well defined. It is for this reason that we believe the OTC ISIN is the optimal solution: fields within the OTC ISIN 'wrapper' have been harmonised, enabling consistent interpretation and validation, in line with an ISO standard.

The UPI+ approach is in effect a disaggregation of data elements which are currently within an ISO standard ISIN wrapper. This will result in having some data elements within an ISO standard (the UPI) and some reported free form by firms, which will lead to inconsistent data, especially where dates are reported and require further calculation to reach the required tenor attribute.

As we have noted above, it was never the intention, when designed, that the UPI would result in rolling back from granular ISO standard identifiers. The CPMI-IOSCO's UPI Technical Guidance envisaged the opposite: *"The CPMI and IOSCO are conscious that a UPI could serve purposes other than this, such as other forms of regulatory reporting specific to particular jurisdictions, or pre- and post-trade processes performed by market participants and financial market infrastructures. These other uses could imply an identifier with more granular reference data than that required for the regulatory use cases. Therefore, the UPI could be leveraged to create other more granular identifiers for other purposes, without hindering the use of the UPI as here defined for the reporting of OTC derivative transactions to TRs and global aggregation."* (Page 3).

Similarly, the ISO committee overseeing both UPI and ISIN foresaw the on-going need for both product identification (via UPI) and instrument identification (via OTC ISIN) and ensured both could be used consistently and at differing granularities to suit different purposes.