Derivatives Service Bureau

Frequently Asked Questions

Term of Contract (Field 41)

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Preface

Change History

Date	Type	Version	Author	Revision Details
11 Dec 2018	Draft	1	Simon Wiltshire	Initial Version
18 Dec 2018	Draft	2	Simon Wiltshire	Following comments and additional questions from Malavika Solanki
08 Jan 2019	Draft	3	Simon Wiltshire	Following comments and adjustments by the Product Committee
11 Jan 2019	Published	4	Simon Wiltshire	Published on the DSB Website
01 Mar 2019	Published	5	Simon Wiltshire	Updated to include the ESMA No Brexit statement.
20 May 2019	Published	6	Simon Wiltshire	Added Section 7 : Standard Term of Contract Input Values
16 Jul 2019	Published	7	Simon Wiltshire	Major contents change to cover September 2019 release details and integrated tenor calculator. Out-dated text has been ~~struck out in grey~~.
08 Aug 2019	Published	7.1	Simon Wiltshire	Removed (struck out in grey) out-dated text from Section 4.4
19 Sep 2019	Published	7.2	Nathan Dagg	Update EOM Section 4.4.
24 Oct 2019	Published	7.3	Nathan Dagg	Added section 4.9

Contents

1   Introduction

1.1   Document Purpose

The purpose of this document is to detail the frequently asked questions posed by the industry and the corresponding answers concerning the way in which the Term of Contract attributes (found on Rates and Rates-related Cross-Asset products) should be used. The FAQ aims to be a "living" document that will evolve as questions and issues are received by the DSB.

1.2   Background

Based on competent authorities (CAs) observations and request for clarification from market participants, ESMA observed inconsistencies in data provided in IR Term of Contract (Field 41) compared to the definition of this field specified in RTS 23 of the MiFID II regulations.

ESMA noted that according to the provision of the relevant TS, IR Term of Contract (field 41) might be better served if it were populated with the term of the contract.

In order to support this guidance, the DSB has included two attributes in the templates for Rates products where the underlying asset is non-financial – Term of Contract Value and Term of Contract Unit.

In addition, the DSB will support the automatic calculation of Term of Contract Value and Term of Contract Unit based on the entry of Effective Date and Expiry Date when the user is not in a position to supply a standard tenor.

2 Regulatory Background

2.1 What is the reason for including Term of Contract in the ISIN definition?

The requirement to include a Term of Contract Value and Unit for Rates (and Rates related) products is based on Section 16 Q1 (footnote 34/35) of the [ESMA Q&A On MiFIR Date Reporting](#) published on [26th September 2018](#).

2.2 What products are impacted and why?

The RTS23 Annex 1 requirement for Fields 40 to 46 states: "The fields in this section shall only be populated for instruments that have non-financial instrument of type interest rates as underlying."

On this basis, the following products include Term of Contract Value and Unit in their template definitions:

i.	Rates.Forward.FRA_Index.InstRefDataReporting
ii.	Rates.Option.CapFloor.InstRefDataReporting
iii.	Rates.Option.Non_Standard.InstRefDataReporting
iv.	Rates.Swap.Basis.InstRefDataReporting
v.	Rates.Swap.Basis_OIS.InstRefDataReporting
vi.	Rates.Swap.Cross_Currency_Basis.InstRefDataReporting
vii.	Rates.Swap.Cross_Currency_Fixed_Fixed.InstRefDataReporting
viii.	Rates.Swap.Cross_Currency_Fixed_Float.InstRefDataReporting
ix.	Rates.Swap.Cross_Currency_Fixed_Float_NDS.InstRefDataReporting
x.	Rates.Swap.Cross_Currency_Inflation_Swap.InstRefDataReporting
xi.	Rates.Swap.Cross_Currency_Zero_Coupon.InstRefDataReporting
xii.	Rates.Swap.Fixed_Fixed.InstRefDataReporting
xiii.	Rates.Swap.Fixed_Float.InstRefDataReporting
xiv.	Rates.Swap.Fixed_Float_OIS.InstRefDataReporting
xv.	Rates.Swap.Fixed_Float_Zero_Coupon.InstRefDataReporting
xvi.	Rates.Swap.Inflation_Basis.InstRefDataReporting
xvii.	Rates.Swap.Inflation_Basis_Zero_Coupon.InstRefDataReporting
xviii.	Rates.Swap.Inflation_Fixed_Float_YoY.InstRefDataReporting
xix.	Rates.Swap.Inflation_Swap.InstRefDataReporting
xx.	Rates.Swap.Non_Standard.InstRefDataReporting

For Cross-Asset products, the Term of Contract Value and Unit attributes will be required only if the product in question includes a non-financial instrument of type interest rates as an underlying. On this

basis, the following products may be required to include Term of Contract Value and Unit in their template definitions:

    i.   Other.Option.Non_Standard.InstRefDataReporting

    ii.   Other.Other.Non_Standard.InstRefDataReporting

    iii.   Other.Swap.Non_Standard.InstRefDataReporting

2.3   What products are not impacted and why not?

Based on the RTS23 Annex 1 requirement from the previous question, the following Rates products will not include Term of Contract Value and Unit in their template definitions since they have a financial instrument as an underlying asset:

    i.   Rates.Option.Debt_Option.InstRefDataReporting

    ii.   Request.Rates.Option.Swaption.InstRefDataReporting

    iii.   Rates.Forward.FRA_Other.InstRefDataReporting

The assumptions above are based on the definition of Financial Instruments in the MiFID II (2014/65/EU) text:

- Article 4(15) - 'financial instrument' means those instruments specified in Section C of Annex I.
- Section C of Annex I:
  - Transferable securities;
  - (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

Please note that this requirement does not impact any other asset class (ie: Credit, Equities, FX or Commodities).

3   Implementation

3.1   What is the regulatory implementation date for this change?

~~Please refer to the details in the notification provided by ESMA here.~~

~~The DSB Product Committee is currently evaluating next steps in consultation with ESMA.~~

~~Please see Section 2.6 (below) for an update on the current situation.~~

The Public Statement ([Use of UK data in ESMA databases and performance of MiFID II calculations in case of a no-deal Brexit](#)) published by ESMA on 5th February 2019 indicated that the implementation deadline for the changes included in MiFIR Q&A on Interest Rates Swaps reporting (see Q2.1 above)

would be shifted to Q3 2019, but no precise date was provided. Please refer to first paragraph on [page 3 of the statement](#) for specific details.

In light of this, the DSB proposed an implementation date of 22nd September in order to provide the user community with sufficient time to adopt the change and perform the necessary UAT.

3.2   Will there be any transition period after 22nd September?

~~Please see Section 2.6 (below) for an update on the current situation.~~

Given that all new ISINs from the revised implementation date (Q3 2019) need to have the additional attributes as part of the user input attribute set, the DSB Product Committee advised that the latest possible implementation date be used to allow industry as much time for UAT testing as was feasible – an approach that is consistent with other major industry endeavors.

For this reason, the DSB is planning to deploy the enhanced templates on 22nd September 2019 with no transition period following implementation.

3.3   Will there be a back-fill (or modification) process which adds these attributes to the ISIN records of existing ISINs which match the criteria?

ESMA have indicated that they expect trades executed after the guidance goes live to contain field 41 as an attribute but that there would be no impact on ISINs created and/or trades executed before "guidance go-live date". Therefore, the DSB will not be modifying or back-filling existing ISINs as a single ISIN (pre-Field 41) could apply to a combination of multiple tenors.

The ISINs reported under the requirements of Article 27 of MiFIR that were issued prior to the implementation date of this Q&A and are still live on the implementation date should not be terminated in FIRDS.

Specific detail in the ESMA guidance is available here: "Issuance of new ISINs as per the Q&A is only expected for the new instruments that must be reported to FIRDS for the first time on implementation date and going forward.

The ISINs reported under the requirements of Article 27 of MiFIR that were issued prior to the implementation date of this Q&A and are still live on the implementation date should not be terminated in FIRDS." Source: [ESMA announcement](#)

3.4   Where can up-to-date release be found?

Please refer to the [2019 Sep Release Page](#) on the DSB Website.

4 Product Template Use

4.1 How should templates be populated?

The following section of this document aims to provide DSB users with a summary of the way in which the Term of Contract (Field 41) enhancements are expected to be used for Rates products.

The updated JSON templates have been constructed to support either (a) the direct entry of the Term of Contract (using the "by Tenor" component) or (b) the calculation the Term of Contract from input

values (using the "by Effective Date" component). For both entry methods the DSB will then return a Term of Contract Value and Unit that is to be used in the definition of the ISIN. This process is summarized in the following diagram:
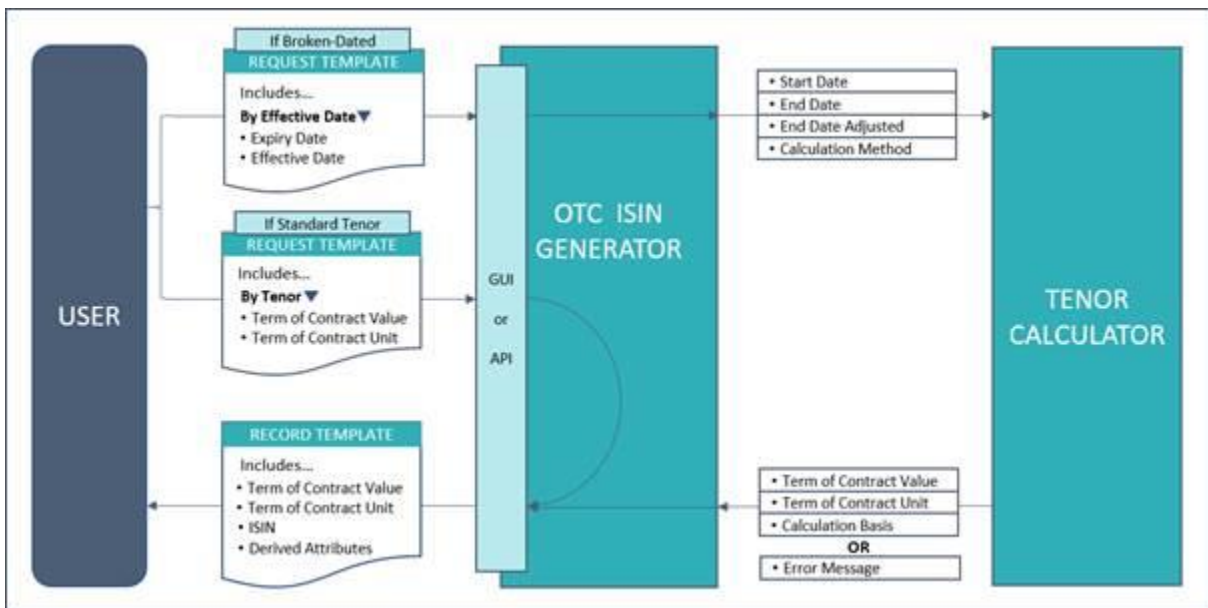
1. **By Tenor Component**
   If the user knows the Term of Contract Value and Unit at the time of ISIN creation or retrieval, the "By Tenor" component should be used. In this case, the user supplies the product's Term Of Contract Value and Unit and these values will be used in the definition of the ISIN and will be returned in the Record message.

2. **By Effective Date**
   If the user is not in possession of the Term of Contract Value and Unit at the time of ISIN creation or retrieval, the "By Effective Date" component can be used. For this use case, the user supplies the product's Effective Date (along with the mandatory Expiry Date and defaulted values for Expiry Date Adjusted and Tenor Calculator Method). These attributes are then used by the DSB to calculate a Term Of Contract Value and Unit which are then used in the definition of the ISIN and returned in the Record message.

4.2 How should the Cross-Asset templates be populated?

In addition to the above components, the Cross-Asset templates also include a "Non-Rates" component for products that do not include a Reference Rate underlying asset and, therefore, are not required to include a Term of Contract. In this case, the user is not expected to supply any of the attributes that would be relevant to the Term of Contract.

4.3 What are the Standard Term of Contract Input Values?

The ESMA Q&A document on MiFIR data reporting (link) Section 16, footnote 35.1 states that "If the contract duration fits a standard term, the standard term should be populated in field 41."

Following a lengthy and detailed discussion process, the DSB Product Committee (comprised of Sell-Side Institutions, Buy-Side Institutions, Trading Venues, Vendors, Trade Associations and other industry representatives) reached a consensus view on the approach to the values that are to be used for the Term of Contract Value Unit / Value (Field 41) within the Rates products.

When requesting an ISIN for IRS products that are considered to have a "standard term", the DSB Product Committee has agreed that only the following values should be used to populate the Term of Contract Value Unit / Value (Field 41) attributes:

DAYS	WEEKS	MONTHS	YEARS
1 DAYS	1 WEEK	1 MNTH	1 YEAR
2 DAYS	2 WEEK	2 MNTH	2 YEAR
3 DAYS	3 WEEK	3 MNTH	3 YEAR
4 DAYS	4 WEEK	…through to	…through to
5 DAYS		11 MNTH	999 YEAR
6 DAYS		13 MNTH	
		14 MNTH	
		15 MNTH	
		…through to	
		23 MNTH	

The PC has also agreed that the following specific values are not considered as Standard Tenors for the purpose of product template submission: 0 DAYS, 12 MNTH, 24 MNTH.

If the tenor for an IRS product does not match one of the above values, the DSB Product Committee has agreed that the requestor should enter an Effective Date in order to generate automatically a Term of Contract Value/Unit in accordance with the specified ESMA calculation.

Following a period of usage, the PC has proposed that the DSB will seek to introduce systematic validation of the above values for all product template submissions.

If you consider that the above values do not fit your specific requirements, please email the DSB Secretariat with evidence to support your request.

4.4 Should I submit a tenor (instead of using the tenor calculator) when creating an ISIN for instruments with benchmark tenors?

Yes. Per the ESMA guidance, if the instrument has a standard tenor, then that standard tenor should be populated in Field 41. Users not adhering to this approach and using the DSB tenor calculator for instruments with standard tenors may end up populating Field 41 in an inconsistent manner.

This applies to all types of instruments with standard tenors, including (but not limited to) fixed-to-floating swaps, IMMs, and MACs.

As two examples:

a) A 10YR EUR IMM swap traded on 31st October 2018:
Effective date = 19th Dec 2018
Maturity date (unadjusted) = 20th Dec 2028

The industry knows this as a 10yr tenor, so the value submitted in the DSB template should be "10 YEAR" and not a calculated value of 522 weeks returned by the tenor calculator.

b) A 2YR EONIA swap traded on 27th March 2019 (with end of month rolls):
Effective date = 29th March 2019*
Maturity date (unadjusted) = 31st March 2021

The industry knows this as a 2y tenor, so the value submitted in the DSB template should be "2 YEAR" and not a calculated value of 733 days returned by the tenor calculator.

Note: *The Effective Date in this example is a pre-adjusted date. When use the tenor calculator unadjusted dates should be used as specified in Section 4.7.

The industry is currently working on best practice guidelines to assist in use of the DSB tenor calculator. Details will be made available to the DSB user community once industry reaches agreement.

4.5 When should the tenor calculator be used?

If the instrument does not have a standard tenor, then Field 41 should be populated according to the methodology provided in the ESMA guidance. The DSB tenor calculator is designed to return a tenor in accordance with this methodology.

As an example:

A 5 YR and 6 Month GBP swap traded on 28th February 2019:

Effective date = 28 Feb 2019

Maturity date = 30 Aug 2024

The tenor calculator will return a value of 287 weeks for Field 41.

4.6 What is the basis for the Tenor Calculation?

As noted in Question 4.1, the DSB will calculate the Term of Contract Value and Unit when the user supplies an Effective Date and an Expiry Date. The calculation method used for the generation of the ISIN is based on footnote 35 of ESMA Q&A On MiFIR Date Reporting which has been reviewed and signed off by the DSB Product Committee.

Details of the calculation method used can be found in the DSB Tenor Calculation Specification but it should be noted that the Tenor Calculator is integrated with the ISIN generator and cannot be accessed directly by the user.

4.7 Are the Effective and Expiry Dates Adjusted or Unadjusted?

An unadjusted Expiry Date should be used for all products supported by the DSB (including Credit, Equities, FX and Commodities).

Effective Dates are not subject to adjustment and so the Effective Date can be considered as being "unadjusted".

4.8 How is this functionality supported in the DSB GUI?

1. By Tenor Component

The following screenshot shows the "**By Tenor**" component with the new Term of Contract Value and Term of Contract Unit attributes highlighted..

2. By Effective Date

The following screenshot shows the "**By Effective Date**" component with the new Effective Date, Expiry Date Adjusted and Tenor Calculation Method attributes highlighted..

4.9 Can you describe the impact of normalization on the returned values of the ISIN record?

The tenor calculator will process the ISIN request using the "by Effective Date" method and return a Term of contract value according to the methodology specified in the Tenor Calculation document which can be found here.

If the calculation of Term of Contract has resulted in the Overflow values, no normalization will occur on the calculation.

If a user submits the calculated Term of Contract value using the "by Tenor" component, the ISIN will be created using this value and normalized according to what is defined in the Product Definitions document i.e. 7 days > 1 Week, 12 months > 1year etc. Examples are provided below.

Example 1 – by Effective Date

Request		Return	
Expiry Date	15-Nov-2043	**Expiry Date**	15-Nov-2043
Effective Date	20-Nov-2023	**Term of Contract Value**	240
		Term of Contract Unit	MNTH
		ISIN	EZ0000000001

The Term of Contract value returned to the user is 240 months using the Overflow Months calculation.

Example 2 – By Tenor

Request		Return	
Expiry Date	15-Nov-2043	**Expiry Date**	15-Nov-2043
Term of Contract Value	240	**Term of Contract Value**	20
Term of Contract Unit	MNTH	**Term of Contract Unit**	YEAR
		ISIN	EZ0000000002

The Term of Contract value returned to the user is 20 Years, as this value has been normalized to adjust values to a common date (e.g.: 7 Days => 1 Week and 12 Months => 1 Year).