



# **Derivatives Service Bureau**

Fee Model

## **Consultation Paper 2 – FINAL REPORT**

28 June 2017

## 1 Executive Summary

European legislation MiFID II/ MiFIR, MAR & PRIIPs have specified the use of ISINs for all the instruments in-scope of the regulation, including OTC derivatives tradeable on an EU trading venue or with an underlying tradeable on an EU trading venue. ANNA, after discussions with the industry and ISO, has set up the Derivatives Service Bureau (DSB) to assign global, permanent and timely ISINs to OTC derivatives

The DSB completed a first consultation on the fee model and published the final report on 28 February 2017. The report can be found at <http://www.anna-web.org/dsb-consultation-fee-model/>

The second consultation was opened on 3 May 2017, closed on 31 May 2017 and can be found at <http://www.anna-web.org/dsb-consultation-fee-model-2/>. The purpose of this second consultation was to obtain feedback on the final fee model proposal and ask a set of specific questions on fund redistribution and costs. The second consultation received responses from a variety of institutions, including regional and global industry associations, brokers, National Numbering Agencies (NNAs) and vendors.

This document builds on information already in the public domain and sets out the Derivative Service Bureau's fee model for both users who elect to connect either directly or via an intermediary.

The DSB implementation schedule includes the following key milestones:

- Production – 2<sup>nd</sup> October 2017
- Start of MiFID II obligations – 3<sup>rd</sup> January 2018

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## 2 Introduction

The Association of National Numbering Agencies (“ANNA”) has founded the Derivatives Service Bureau (DSB) for the allocation and maintenance of International Securities Identification Numbers (ISINs) for OTC derivatives.

The allocation of ISINs to these instruments, as well as the provision of access to the ISIN archive and associated reference data, comprise the numbering agency function of the DSB. This function is overseen by ANNA as the Registration Authority for ISINs under contract with the International Organization for Standardization (ISO) through strict rules over business and technical operations, including limiting user fees to cost recovery.

There is discretion regarding how the fees may be structured and applied to meet these rules, and the fee structure is the primary focus of this consultation.

The European Union’s MiFID II/MiFIR regulations mandate the use of ISINs to identify certain OTC derivatives, starting on 3 January 2018. The affected OTC derivatives include those tradeable on a European trading venue (ToTV) and those with underlying asset(s) tradeable on a European trading venue (uToTV). The reporting obligations for these instruments affect trading venues and Systematic Internalisers (SIs)<sup>1</sup>.

The purpose of this document is to present a summary of industry feedback to the second consultation paper on the Derivatives Service Bureau (DSB) Fee Model and the DSB’s conclusions in the light of those responses. 42% of respondents to the second fee model consultation had also responded to the first fee model consultation conducted by the DSB.

This final report should be read in conjunction with the original consultation for the broader background (<http://www.anna-web.org/dsb-consultation-fee-model-2/>) and the first fee model consultation and final report (<http://www.anna-web.org/dsb-consultation-fee-model/>).

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<sup>1</sup> As defined in MiFIR

## 2.1 Principles

Below is a table with a brief statement against the key four principles used by the DSB to develop the fee model.

Principle	Brief Description
Cost Recovery	<p>The DSB will provide all numbering agency services on a cost recovery basis.</p> <p>From the DSB's perspective, this means that the revenues must be sufficient to ensure that the numbering agency has the financial viability to meet its continuing obligation to provide these services. From the user perspective, it means that the payment for these services does not profit the owners of the utility beyond its maintenance as a financially viable entity.</p> <p>Furthermore, the funding model needs to be sustainable, which includes the need to be efficient and reliable.</p>
Unrestricted Data	<p>The DSB intends that no data associated with the definition of an ISIN will have licensing restrictions dictating usage or distribution.</p> <p>If the DSB Product Committee (<a href="http://www.anna-web.org/dsb-product-committee/">http://www.anna-web.org/dsb-product-committee/</a>) determines that there is no viable alternative to the use of licensed or restricted data in a product definition, the DSB will review the impact to its Unrestricted Data policy at that time, taking into account the specific products and attributes that are impacted by the incorporation of licensed or restricted data in the product definitions.</p>
Open Access	<p>Access to the DSB archive for consumption of OTC derivative ISINs and associated reference data will be available to all organizations and users.</p>
Payment in Advance	<p>To the extent possible, the DSB will levy fees through annual contracts that require payment in advance.</p> <p>This advance yearly commitment offers the DSB more clarity in aligning fee levels with cost recovery.</p> <p>For the users, it provides improved ability to forecast their costs for utilising ISIN services</p>

## 2.2 Response Highlights

The responses received by the DSB highlighted market need for both the creation of an “infrequent user” category to assist institutions who expect to create ISINs on an occasional basis only; and consideration to be given to how indirect users (via intermediaries) will interact with the DSB so that a broader set of criteria are used to determine fee levels.

General feedback to each question raised in the previous consultation paper is set out below, with specific matters addressed in the body of this document.

- 4-year amortization period: 42% of respondents agreed with the proposal (one of whom had a view on duration); 8% disagreed with the proposal and 50% were silent or said they were unable to comment on the subject  
DSB Decision: to stay with the 4-year amortization rule.
- Creation of a €750k operational contingency fund in the initial years of service: 42% concurred with the principle of having a contingency fund and specific alternative views provided on term, fund size and use; 17% believed that a contingency fund was unnecessary and 42% were silent.  
DSB Decision: the DSB has taken on board industry sentiment and has thus reduced the contingency amount to thresholds broadly compatible with feedback so that the industry funded operational contingency amount is now €375k per annum
- Removal of an asset class based fee: 67% concurred; 17% disagreed as they saw a need for an asset class based fee; and 17% were silent  
DSB Decision: the asset-class fee has been removed.
- Provision of a full database archive of ISIN product attributes to Registered Users for no fee: 58% concurred with a range of comments either endorsing free distribution or requesting limitations on content provided free of cost; 25% disagreed with the proposal and 17% were silent  
DSB Decision: provide free access for Registered Users to the full database archive of ISIN product attributes
- Use of a 3:1 ratio for fees paid by Power Users vs. Standard Users: 25% concurred; 8% respondent disagreed and 67% were silent. This was one of two questions with mixed feedback such that even those concurring with the principle of a ratio either suggested that download limitations be placed on free content or that the ratio be reviewed in the first year of operation once the DSB was actively in use  
DSB Decision: preserve the proposed 3:1 ratio and re-evaluate for the next invoice period.
- Comfort with contract execution and payment deadlines: 33% disagreed; 25% concurred and 42% were silent. This question also generated mixed commentary with a mix of respondents either comfortable with the proposed contract execution timelines or seeking additional time. One additional item of feedback was the challenge for some users to sign a user agreement without clear and defined pricing.  
DSB Decision: Considering the majority opinion received by the DSB on this subject, the DSB proposes to delay the contract completion date by a fortnight to provide more time for contract review, whilst still allowing users intending to go-live on launch date to have fee clarity at least

one week ahead of go-live. Were the DSB to delay contract completion any further, users intending to go-live on launch date would not have sufficient clarity into their fee structure for the year.

- Use of excess revenue to offset subsequent years' fees: 67% concurred with some respondents making recommendations on procedural matters; 8% disagreed with the proposal and 25% were silent. Respondents who agreed with the principle of fee offsets had views on the duration, use and incentivization to encourage users to join ahead of the fee calculation date.

DSB Decision: implement the proposed revenue offset model

### 3 Cost Basis

This section described the various costs that form the basis of the DSB cost recovery model. As the numbering agency function is expected to be self-sustaining while operating on a cost-recovery basis, the total overhead of supporting services, technology and capital are included in this calculation.

The contingency fund is primarily intended to ensure prudent reserves that allow the DSB to deliver mid-year functionality enhancements in response to industry requests. Some examples of this are (i) the provision of ToTV<sup>2</sup> and uToTV flags as requested by the industry in response to a product consultation paper; (ii) the introduction of default attributes at the DSB Product Committee's request so that users can streamline their data management requirements when connecting with the DSB; and (iii) the ability for users to connect to the DSB in an increased number of ways

It should be noted that:

a) the requirement for cost-recovery financial operation makes the need for prudent reserves particularly acute because there is no natural funding mechanism to address emergency or short-term funding needs other than procurement of costly short-term capital or unscheduled changes to the fees. To avoid either of these, the inclusion of a prudent reserve in the cost basis is a form of risk management that benefits the users as well as protects the numbering utility.

b) The DSB's governance model requires that an independent consultancy review the functioning of the DSB on an annual basis. The DSB will make public a summary report of the findings to the user community to provide assurance on both start-up and on-going costs.

c) As part of its existing governance commitments, the DSB engages the industry ahead of engaging in any major delivery programmes within the cost recovery framework. Consultations channels include but are not limited to the DSB Product Committee; formal consultation papers or ongoing industry discussion - as appropriate.

c) The remaining build contingency rolls into the operational cost contingency if not used during 2017 (up until October) for a maximum period of five years after which it falls away as DSB utilization stabilises

The next section of the document is separated into two: start-up cost and operational cost. Start-up costs are incurred in a staggered manner, require lower levels of resiliency, support and infrastructure vs. production; whilst run costs are incurred over a 12-month period based on 24\*6 availability, resilient infrastructure, high quality support and higher data consumption levels. Build costs have been actively minimized through the DSB's extensive use of modern open source technologies where feasible and robust. Some examples of the DSB's use of open source technology that have reduced build costs are set out below:

- Database - MongoDB <https://www.mongodb.com/>
- Search – Apache Solr <http://lucene.apache.org/solr/>
- Synchronization and configuration – Apache ZooKeeper <https://zookeeper.apache.org/>

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<sup>2</sup> Traded on a Trading Venue (ToTV) and underlying is Traded on a Trading Venue (uToTV) as defined by MiFIR

### 3.1 DSB Start-Up Costs

The total cost of setting up the DSB in its numbering agency function through 2016 and to the end of Q3 2017 is forecast to be €5.7m, plus an additional €132K held as contingency. The upgraded figures reflect the use of €468K of the contingency to build the ToTV / uToTV functionality requested by the market, alongside a couple of minor additional enhancements.

This figure, which includes a 20% margin for financial sustainability, can be broken down as:

Category	Description	Amount
Technology & Operations	Build and test of the DSB technology stack, including operation of the test environments	€3,022K
Management	Senior management team including MD, MSP management team and CFO	€1,132K
External consultants	External oversight and legal, professional & communication	€665K
Administration	Administrative costs and overheads such as office space, travel and expenses and administrative support functions	€341K
Financing costs	Loan interest costs	€93K
Contingency	A contingency fund to cover extraordinary costs the DSB may incur during the build phase. For example, the request by industry for ToTV / uToTV functionality implementation within the cost recovery mandate of the DSB is being met via this fund.	€600K
		<b>€5,853K</b>

Respondents mostly agreed with the approach of amortizing the start-up costs of the DSB over 4 years. One respondent did query whether the DSB had followed a standard methodology for deciding the amortizing period. In fact, the DSB Board decided on a period that repaid the initial costs but balanced the repayment responsibility against the need to not overly burden the industry in the very short-term. The DSB Board is comfortable that amortization over 4 years does indeed follow standard accounting practice. That part of the contingency not used during the period until October 2017 will be rolled into the 2017-2018 numbers to allow for delivery bandwidth in the early stages of operation.

A query was also raised about why users were bearing the start-up costs since that was ‘investment’ for ownership. As a reminder, the DSB’s investors are providing the start-up funding to enable the DSB to build the service ahead of go-live. In addition, the DSB’s investors do not commercially benefit from functionality delivered under the cost recovery mechanism beyond the need to ensure financial sustainability, thus any cost recovery related functionality is funded by the industry that it is built to serve.

The start-up costs will be included in the review conducted by the independent consultancy. This review will produce a final report, a summary of which will be made available to the public as part of the DSB’s transparency to the industry.

## 3.2 DSB Operational Costs

Whilst most of those who expressed a view were supportive of the proposed contingency fund of €750K for each year of the first four years, there were some respondents who felt the investors should provide this capital, given their role as funders. Accordingly, the DSB proposes to lower the industry contribution to €375K with any additional contingency funds being supplied by investors. It is important to recognise that where the contingency fund is not utilized in any given year, it will roll forward into the following year (for each of the first four years) with no additional contingency fund required to be funded by the industry. The contingency fund provides the flexibility to respond to developments without needing to change user fees during the middle of the subscription period or seek additional external funding.

One respondent sought further information about the potential for greater economies of scale. The DSB is focused on delivering a lean but secure and robust service that benefits from economies of scale wherever possible. This can be evidenced by the fee model calculations that show that a doubling of user numbers increases total DSB costs by less than 20%, thereby resulting in a greater than 40% reduction on per-user fees. Therefore, it is anticipated that as user volumes grow, per user fees will indeed reduce.

The total cost-base in the first year of operation is projected to be €8.8m – an increase of €175K which is primarily due to the provision of ToTV and uToTV functionality as requested by the industry. The cost uptick is driven by increased data throughput expectations i.e. users connecting to the DSB more frequently to check for ToTV flags on a pre-trade and post-trade basis, alongside the DSB having to process, manage and store additional data attributes. The increased connection frequency results in commensurately larger network utilization, hard disk capacity and processing power. The DSB will monitor these attributes and seek to create a variable cost infrastructure where practicable so that costs are sensitive to actual data volumes in the system.

The full set of costs, which include a 20% margin for financial sustainability, are broken down as below:

Category (Recurring)	Description	Amount
Technology & Operations	Operation of the DSB platform including technical and asset class support.	€4,103K
	Support of new ToTV/uToTV functionality, default attribute provision and ReST API introduction	€550K
Management	Senior management team including MD, MSP management team and CFO	€967K
Administration	Administrative costs and overheads such as office space, travel and expenses and administrative support functions	€520K
External consultants	External oversight and legal, professional & communication	€476K
<b>Total</b>		<b>€6,616</b>

Category (Time-limited)	Description	Amount
Startup costs	Amortization of start-up costs over the first 4 years	€1,463K
Financing costs	Start-up loan interest costs repaid over 4 years	€320K
Contingency	An annual contingency fund to cover unplanned costs during the initial few years of operation. For example, if industry were to request the DSB to provide additional services within the cost-recovery mandate.	€375K
<b>Total</b>		<b>€2,158K</b>

It was noted that these costs are derived on the assumption of 200 paid-for users, with half connecting via the API<sup>3</sup> and half being heavy users of the web-site, including file download.

The cost base of the DSB was scoped to handle 100 API based users and 100 heavy web users, with no need to increase capacity. Additional users connecting via the API are projected to require capacity increases of approximately €12K pa per additional user. Additional heavy web-site / file-down users are projected to increase annual costs by €4K pa per additional user. The DSB's initial cloud provision has a variable cost component driven by the volume of data carried over the network which also feeds into the need for some level of contingency in the run cost of the early years of the DSB's operating life.

It should be noted that the DSB is deliberately structured to minimize operational costs since costs are shared across the industry. By adding the contingency to the budget in the first instance, the DSB is creating an important buffer to maintain the financial stability of the industry utility. This buffer will be used to cover any unforeseen or previously unplanned costs that are incurred. Further, the deliberate service design providing for external consultants to review the DSB's annual operation with a publicly available report is designed to ensure exceptional transparency.

Regarding the use of contingency funds to deliver additional functionality, the DSB will only redirect these funds after consulting with the industry in the same way it has for the Traded-on Trading Venue (ToTV) service that is only now being added to the core ISIN service. Depending on the timeframe for the required new service, the DSB has the option of embedding those costs into the following year's budget – however, should there not be a perfect synchronization between the new service delivery and the DSB's financial year, some use of the contingency will be required.

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<sup>3</sup> Application Programming Interface (API) - a set of functions and procedures that allow the creation of applications which access the features or data of an operating system, application, or other service.

## 4 Fee Model

Consultation responses with respect to user categories and associated functionality largely focused on the following items:

Multi-asset classed based fees: Most respondents agreed with the proposal to simplify the fee model by removing the categories of single-asset user versus multi-asset user. The DSB appreciates that the multi-asset approach does raise the cost for the single-asset class users however the broadly positive response from across the industry spectrum to a multi-asset class based fee is sufficiently material for the DSB to proceed on this basis.

New user category: A few respondents that raised a concern around users that wish to annually create a small number of ISINs but in such low numbers that the Standard User fee appears disproportionate. The DSB has introduced an “Infrequent User” category in recognition of industry demand for this kind of user to be catered for in the fee model. The simplest method to approach this is to charge a fixed fee that is high enough not to disadvantage those Standard or Power Users but low enough to be acceptable to infrequent and small volume ISIN creators (details are set out in section 4.2 below).

Fee basis: One respondent raised the option of creating a model more fully based on creation. As discussed in the previous consultation, the challenge with this (and this is different to other ISINs being created by NNAs) is that the same instrument with the same ISIN is available from multiple market participants. Having a model based purely on creation would disadvantage the user that first made that instrument available, allowing others to free-ride on the ISIN and its data already created.

Free file downloads: The proposal to make the entire ISIN database available for free to all users was agreed to in principle by most respondents. However, almost all also proposed some form of access limitation to prevent potential free riding by Registered Users who might commercially utilize the data whilst being subsidized by Standard and Power Users.

Suggestions included a limit on the number of ISINs that can be downloaded to a small registration fee that then could offset the data usage costs incurred. The DSB believes that a middle ground can be found by placing data re-distribution limitations on Registered Users such that anyone wishing to commercially exploit the data must at a minimum be a Standard User and participate in the cost recovery model.

## 4.1 User Categories

The table below illustrates the proposed functionality associated with each DSB user type, including:

- the introduction of an “infrequent user” category, created in response to industry demand
- use of a single fee, irrespective of asset class – largely endorsed by the industry
- clarification of the fact that the programmatic nature of Power User connectivity means that these users will be the only ones that can access intra-day, automated updates of DSB data
- confirmation of the fact that DSB users will be allowed to join the service at operating entity level so that affiliated entities can benefit from more streamlined on-boarding processes. This means that distinct user agreements will apply for each of sell-side, buy-side, custodial entities, etc. within a universal bank. Users can however sign a single user agreement across multiple subsidiary entities - with each entity that pays a fee being subject to its own connectivity cap - so long as the subsidiary entities are specifically listed on the associated schedule appended to the DSB User Agreement.
- recognition of the fact that an OTC Derivative ISIN will be used by a broad category of institutions, including but not limited to trading venues, Systematic Internalisers, Investment Firms and PRIIPs manufacturers/distributors

The core proposition for each user type is set out below with full details including service levels and the DSB’s Acceptable Use Policy contained in the DSB User Agreement due for publication on 10 July 2017.

- Registered:
  - File download (ISIN & associated reference data, includes ToTV/uToTV flags)
  - limited GUI based search
  - Terms and conditions accepted via the GUI at login
- Infrequent:
  - File download
  - limited GUI based search (same parameters as Registered Users)
  - can create up to 100 ISINs p.a. using the DSB GUI
- Standard:
  - File download
  - broader GUI based search (more search results returned)
  - can create up to 5,000 ISINs p.a. using the DSB GUI
  - no automation permitted
- Power:
  - File download
  - broadest GUI based search (largest set of search results)
  - can search for and/or create an unlimited set of ISINs on a programmatic basis (subject to Acceptable Use Policy)
  - able to programmatic access intra-day updates from the DSB
  - maximum of 10 simultaneous programmatic connections per Power User

	User Type			
	Registered	Infrequent	Standard	Power
<b>Web Access</b>				
Real-time search for ISINs by identifier	✓	✓	✓	✓
Real-time search for ISINs by attributes	✓	✓	✓	✓
Maximum records returned per search	5	5	50	500
Create new ISINs	x	✓ Max 100 per year	✓ Max 5,000 per year	✓ Cap subject to AUP
<b>File Download</b>				
Access to ISIN + product attributes archive (@ end of day T-1)	✓	✓	✓	✓
ToTV/ uToTV flag	✓	✓	✓	✓
<b>Programmatic Access (FIX API and ReST API)</b>				
Create new ISINs	x	x	x	✓
Search for attributes by ISIN	x	x	x	✓
Subscribe to today's ISINs	x	x	x	✓
Maximum number of API connections	x	x	x	10
<b>Fee Model</b>				
Fee payable by user	x	✓	✓	✓

## 4.2 Payment Structure

The DSB's proposed fee categories for users intending to directly connect to the DSB are:

- Registered User: free of cost
- Infrequent User: €3K annual fee for up to 100 ISINs p.a.
- Standard User: a base fee in accordance with the endorsed model, adjusting for costs borne by Infrequent Users. i.e.

$$\text{Standard User Fee} = \frac{\text{Total DSB Cost} - (\# \text{ of Infrequent Users} * €3,000)}{(\# \text{ of Standard Users} + \{3 * \# \text{ of Power Users}\})}$$

- Power User: 3 \* Standard User Fee

Power User fees were proposed to be set at three times the fee charged to Standard Users. The ratio of fees between Power and Standard users will be part of the variable setting on 1 September 2017 for the 2017-2018 budget and subject to revision each year based on user driven volumes. In addition, it is key to note that Standard Users fees set to reflect the fact that such users are substantially cheaper for the DSB to support as the lack of a programmatic interface results in lower data throughput as well as lower infrastructure requirements. Respondents were mostly neutral regarding the ratio applied between Standard and Power Users. Most accepted the principle that Standard Users should bear less of the DSB costs but the lack of hard data made any assessment of the proposed ratio difficult. The DSB acknowledges that this ratio will be much better informed for the 2018-2019 budget because the utility will have a year's worth of data usage records to understand how the DSB is being used.

One respondent doubted the usefulness of the Standard User category – explaining that anyone willing to pay to use ISINs will probably want API access and therefore opt for the Power User category. As the DSB has not received significant commentary on this aspect, it proposed to evaluate industry engagement in the first full year of operation and proceed accordingly.

The DSB recognises the market need for pricing certainty and intends to provide banding indications as UAT engagement steps up so that the DSB can offer statistically driven insight into possible fee bands. To this end, the DSB commits to providing further information in late July/ early August 2017 and again in late August - by which time it expects additional Power Users to have engaged with the service. This time frame provides users with provisional fee band insight, at least one month ahead of the execution agreement return deadline. Where sufficient clarity of users' intentions is available, the DSB will evaluate the introduction of a fee cap based on UAT activities.

Mid-Cycle Upgrades: User Types are subject to revision on an annual basis, with users able to upgrade at any point in the year and downgrades occurring at the time of annual review. Where users upgrade their user type between standard invoice cycles, they will be liable to pay the annualized fee difference between the relevant bands and the prevailing API set up fee where this is required.

Late Joiners: Some respondents expressed concern that users were insufficiently incentivized to join the DSB in a timely manner, resulting in financial risk for those institutions who joined the service in

accordance with the DSB's proposed timelines. The DSB acknowledges the validity of this concern and believes that the imposition of a significant penalty for such late joiners is difficult to justify considering the cost recovery standards it adheres to. The DSB will however monitor UAT engagement in July and August of this year and reserves the right to amend late joiner fees in light of market feedback.

General: To the extent possible, the DSB will levy fees through annual contracts that require payment in advance. This advance yearly commitment offers the DSB more clarity in aligning fee levels with cost recovery and users gain improved cost forecasting clarity when utilizing ISIN services.

The DSB reserves the right to amend its fee model from time to time such that the service remains operationally and commercially viable and to fulfill the cost recovery framework.

### 4.3 2018 Fee Definition Timetable

The timelines for finalisation the fee amount will now be made available on the below basis and have been revised to reflect industry feedback to the greatest extent possible:

10 July 2017	User Agreement available for execution
15 Sep 2017	Deadline for number of executed contracts used to define the fee model variables
22 Sep 2017	Fee amounts published based on the numbers for each of the model variables
25 Sep 2017	Invoices distributed to users
23 Oct 2017	Payment received by DSB

#### Assumptions

- Production DSB will be available from 2 October 2017 and will be issuing actual OTC ISINs from that date to facilitate industry connectivity and data management needs
- MiFID II / MiFIR will be in force from 3 January 2018
- Most users will be able to meet the above timeline for contract signature to allow the DSB to set the fees appropriately

Whilst expressing their concern at the tight timelines, most respondents acknowledged that this was largely driven by the upcoming regulation timelines and that there was little optionality available. One respondent suggested that the DSB delay fee charging until the beginning of 2018. Whilst this is possible, it would mean the DSB would not be able to make the production environment available for the industry beforehand.

The importance of having a three-month period, during which market participants can complete certification and stabilize their consumption and creation of OTC ISIN data, alongside all their other new processes and infrastructure being delivered for MiFID II is considered critical by the DSB. The DSB does acknowledge that signatories will only know the formulae being used to derive the fee rather than the fee amount itself. The DSB proposes inserting an exit clause in the user agreement, focused on an upper bound to ensure that users are not exposed to the potential full cost of the utility.

There appeared to be a lack of clarity on how the timeline above fits with the production environment availability. The DSB will be fully live from 2 October 2017 – as stated above, this is to give the industry sufficient time to ensure their systems and processes are stable before MiFID II comes into force from 3 January 2018.

## 4.4 Intermediary Effect

Two respondents raised some of the challenges for intermediaries, including categorization of end-users versus the intermediary and the lower cost-base of a single connection versus the DSB supporting all the multiple connections.

The DSB notes that the current approach distinguishes between those intermediaries simply acting as a 'pass-through' of OTC ISIN data versus those who use the data to enhance their own services to their client base. The former will not be charged any fees but will be expected to declare all end-users as well as sign an acceptable use policy to ensure they adhere to the general rules around OTC ISIN usage.

An Intermediary shall be considered a user of the DSB service itself if it is using the data for its own uses, whether that be internal or eventually external after transformation or enhancement with their own data. Any such user must join the service as the relevant class of user and pay commensurate fees. Where an Intermediary is acting purely as a data processor on behalf of its clients then no fee will be required by the DSB. There is currently no limitation on the number of users that an intermediary can serve as each end user will share in the cost recovery model, however the DSB reserves the right to amend this should infrastructure and/or support costs become unduly burdensome to the remainder of the DSB's participants.

Users that connect via intermediaries will be referred to by the DSB as indirect users and become subject to the same fee model as for equivalent direct users. Indirect users receiving any form of intra-day DSB data will be deemed to be "Power Users" while all other indirect users will be deemed to be Standard Users as they benefit from the enhanced data-feeds available to an intermediary serving a Power User.

All users, direct and indirect will be required to sign a contract with the DSB and declare their type of usage.

Intermediaries will be required to identify and categorize each user for which the intermediary is facilitating access to the DSB numbering agency function. Each user will sign the DSB User Agreement and pay their appropriate fee.

Additionally, if the intermediary plans to use the data for their own purposes, they will pay a separate fee in the same manner as any other user. The full details will be provided in the User Agreement.

This approach eliminates any cost advantage in DSB fees to connecting to the DSB via an intermediary or directly. The DSB will treat direct users and intermediated users alike, with neither type of user prioritised ahead of the other.

The DSB remains keen to permit intermediate use of the utility but wishes to ensure equitable treatment in comparison to direct connectors.

## 5 Excess Fee Income Redistribution

### 5.1 Principles

The following principles will guide the use of any excess fee income received by the DSB – primarily generated because of late joiners and/ or mid-cycle upgrades:

- 100% of the excess fee income will be passed back to DSB Standard and Power Users
- The mechanism used to address any excess fee income received by the DSB should be simple and transparent

### 5.2 Proposal

Excess fee income earned will be used to reduce the fees of the DSB for the following year and will form part of the variables set one month before the start of the annual subscription period. The DSB assumes that most users will roll their annual contracts with the utility.

Respondents agreed with the principle of using excess revenue to reduce user fees for the following year. There were additional suggestions around ensuring any excess is minimized through the calculation of initial fees and offsetting on a firm-by-firm basis.

Through the fee model explained in this consultation, the DSB is focused on ensuring that minimal funds are raised although this is balanced against the need for financial stability of a key market utility. Reallocation on a firm-by-firm basis will only be considered fair if the DSB also accounts for the exact amount of data and the number of ISINs being used by each firm. Not only would this analysis be an additional cost, it potentially would also skew the charges against those who ‘acted first’ to create ISINs that were then used by the broader community. The DSB prefers to keep the return of excess fees simple and reduce the upcoming year’s entire cost base.

## 6 Worked Example

The table below shows how the DSB's fees will be calculated based on the fee model set out in this document.

User	Registered	InFrequent	Standard	Power
<b>Base Case Scenario</b>				
Number of Users	1000	30	100	100
Fee per organization	€0K	€3K	€22K	€65K
Total revenue per user group	€0K	€90K	€2,171K	€6,513K
<i>Total Revenue</i>				€8,774K
<b>Increased User Base Scenario</b>				
Number of Users	1000	60	200	200
Fee per organization	€0K	€3K	€13K	€38K
Total revenue per user group	€0K	€180K	€2,549K	€7,646K
<i>Total Revenue</i>				€10,374K
<b>Post 01 Sep 2017 Joiners</b>				
Number of Late Users joining in middle of financial year	0		50	50
Fee per organization	€0K		€13K	€38K
Cost per organization			€4K	€12K
Pro-rata factor			50%	50%
Total surplus per user group	€0K		€219K	€656K
<i>Total Surplus</i>				€874K