DSB Paper: European Commission targeted consultation on OTC derivatives identifier for public transparency purposes

The Derivatives Service Bureau (DSB) is the issuing agency and service provider for both OTC derivatives identifiers under consideration – the UPI and the ISIN. The DSB will support the implementation of either option and has analysed each option through the lens of what will implementation mean from a technical, complexity and data quality stand-point. As part of this analysis, the DSB has prepared the below tables:

- Tables 1:
  - Table 1A: Summary of which identifier is used for MiFIR reporting under Option 1 and Option 2
  - Table 1B: Conclusions based on Table 1A
- Table 2: Comparison of the features provided by Option 1 and Option 2
- Table 3: Comparison of benefits of Dates versus Terms (or 'Tenors') as attributes within identifying reference data

Table 1A: Summary of which identifier is used for MiFIR reporting under Option 1 and Option 2

The below table shows which identifier would be used for MiFIR transparency and transaction reporting requirements under Option 1 and Option 2. The table illustrates that:

- Transaction reporting (Article 26) covers a wider scope of OTC derivatives than the transparency requirements (Article 8a); and
- Option 1 bifurcates the identifiers used (UPI+ and ISIN) for reporting (1) within the transparency regime itself and (2) between the transparency and transaction reporting regimes whereas under Option 2 the ISIN is used for all reporting.

MiFIR REPORTING SCOPE FOR OTC DERIVATIVES		OPTION 1 UPI+		OPTION 2 Modified ISIN	
		MiFIR Transparency Reporting	MiFIR Transaction Reporting	MiFIR Transparency Reporting	MiFIR Transaction Reporting
1	OTC derivatives executed on a trading venue (MTF & OTF) *[Transparency rules apply only if OTC derivatives are within scope as per Art 8a, MiFIR Review]*	**UPI+ for IRS** **ISIN for CDS**	**ISIN**	**ISIN**	**ISIN**
2	OTC derivatives executed off venue if they fall within the transparency scope	**UPI+ for IRS** **ISIN for CDS**	**ISIN**	**ISIN**	**ISIN**
3	OTC derivatives with an underlying traded on a trading venue	N/A	**ISIN**	N/A	**ISIN**
4	OTC derivatives with an index or basket composed of financial instruments that are traded on a trading venue	N/A	**ISIN**	N/A	**ISIN**

Table 1B: Conclusions based on Table 1A (above)

The below table summarises the three key conclusions extracted from Table 1A above:

	SUMMARY OF KEY CONCLUSIONS BASED ON TABLE 1A (above)	OPTION 1: UPI+	OPTION 2: Modified ISIN	COMMENTS
1	**The same workflow and systems can be used for transaction reporting and transparency obligations.**	**No**	**Yes**	For Option 1, new workflow and system changes are required for UPI+. For Option 2 the same workflow and systems can be leveraged as ISIN continues to be used for all reporting.
2	**Reduction in number of ISINs due to existing Interest Rate Swap ISIN modified to remove 'Expiry Date' attribute**	**No**	**Yes**	For Option 1, the existing Interest Rate Swap ISIN which includes the Expiry Date is retained for transaction reporting and therefore ISINs will continue to be generated daily. For Option 2, assuming the modified ISIN is also used for transaction reporting, the number of ISINs generated will reduce significantly and no longer daily.
3	**Streamlined approach to reporting**	**No**	**Yes**	Option 1 bifurcates the approach/identifier used for reporting (1) within the transparency regime itself and (2) between transparency and transaction reporting. For Option 2, the ISIN continues to be used for all MiFIR reporting.

Table 2: Comparison of the beneficial features of Option 1 versus Option 2

The below table summarises the key points made under Questions 1.1 and 1.2 of the consultation and illustrates that out of fourteen beneficial features, Option 1 will meet two of them and Option 2 meets all fourteen of them.

	Beneficial Features	OPTION 1 (UPI +)	OPTION 2 (Modified ISIN)	Comments
1	Identifier based on International standards agreed upon at Union or global level	Yes	Yes	The ISIN (ISO 6166) and UPI (ISO 4914) are both globally recognised and adopted ISO (International Organization for Standardization) standards. The UPI System is also overseen by the Regulatory Oversight Committee ('ROC') which comprises G20 regulators.
2	Elimination of daily ISIN creation	No	Yes	Option 1, UPI+, means existing ISINs with the Expiry Date will still be used for transaction reporting. This will entail continued high volume of ISIN issuance. Option 2 modifies the ISIN through removing the Expiry Date which means that for the most traded swaps, the ISIN population will reduce significantly if the modified ISIN is also used for transaction reporting.
3	Approach consistent with existing proprietary identifiers of data vendors, MTFs and SEFs in the US.	No	Yes	Attributes of Term of Contract and Forward Term of Contract reflect market practice where front office trades benchmark swaps based on terms/tenors which are included within one identifier.
4	Meaningful price transparency created from a single identifier	No	Yes	Option 1, UPI+, requires the identifier to be supplemented with additional attributes whereas under Option 2, modified ISIN, all attributes are within the identifier.
5	Removal of Intra-Day dependency on DSB	No	Yes	Under Option 1, daily ISINs will still be generated and required for transaction reporting. Under Option 2, with a single 'permanent ISIN' that does not change daily, market participants will be able to obtain the 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 ISIN and reference data from DSB's end of day files (free and unrestricted use) or ESMA's open source database.
6	Reduction in costs	No	Yes	Under Option 1, daily ISINs will still be generated and required for transaction reporting; infrastructure will need to be adapted to cater for UPI+ workflow. Under Option 2 the reduction in volume of 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 as a result of lower ISIN issuance volumes.
7	Compatible with standardised human readable descriptor.	No	Yes	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. The UPI also contains a human readable label, but this label cannot be used to identify the financial instrument because it does not contain tenor (or date).
8	Leverages existing ISIN infrastructure and workflows	No	Yes	Option 1 requires market participants and regulators to implement a bifurcated model which caters for UPI+ and ISIN reporting. Under Option 2, the only change required is the introduction of a new product template for benchmark interest rate swaps.
9	Approach consistent with other MiFIR regulatory reporting	No	Yes	Option 1 would require market participants and regulators to implement this bifurcated model. UPI+ for IRS results in a bifurcated approach (1) within the transparency regime itself and (2) between transparency and transaction reporting. Under Option 2, the modified ISIN could be used in transaction reports to supervisory authorities for the market abuse use case under MiFIR.
10	Approach consistent with EMIR regulatory reporting	No	Yes	The UPI is reported under EMIR for OTC derivatives which are traded entirely outside of trading venues. This means that OTC derivatives which fall in-scope of MiFIR transparency requirements are reported using the ISIN under EMIR. Consequently, • Option 1 results in a different identifier being used to report the same OTC derivative under MiFIR and EMIR (UPI under MiFIR for transparency reporting and ISIN under EMIR); • Option 2 results in the same identifier (ISIN) being used to report the same OTC derivatives under MiFIR and EMIR.
11	Identifier provides cross-asset consistency	No	Yes	The ISIN is used across all asset classes, thereby allowing comparison across exchange traded derivatives and OTC derivatives. The UPI is specific to the OTC derivatives asset class and Option 1 would require market participants and regulators to implement a bifurcated model.
12	Approach leverages ESMA's existing reference databases used for identifying reference data	No	Yes	Option 1 results in either (1) a bifurcation of identifying reference data flows between publication to market participants (UPI+) and submission to ESMA (ISIN) or (2) significant changes required to ESMA's reference databases to adapt to UPI+. Option 2 enables price transparency identifying reference data to be published to the market and supplied to ESMA, leveraging the existing systems built around the ISIN.

13	Identifier compatible with other jurisdictions which use the UPI	Yes	Yes	The UPI attributes and UPI code are at the core of each Option. The UPI is a subset of the ISIN's attributes and the relevant UPI code itself is included in each ISIN record. The issuance of an ISIN automatically results in the issuance of a UPI if the UPI doesn't already exist. The ISIN for OTC derivatives was designed from the start to be consistent and complementary to the UPI. Firms can use the ISIN workflow to obtain the UPI.
14	Identifier designed to identify a financial instrument	No	Yes	The ISIN is designed to identify OTC derivatives at financial instrument level; the UPI is designed to identify OTC derivatives at underlying product level. The EU MiFIR regime has the concept of a financial instrument as a central feature.

Table 3: Comparison of benefits of Dates versus Terms (or 'Tenors') as attributes within identifying reference data

The below table shows that using Term (also known as Tenor) attributes within the identifying reference data to support price transparency provides five important benefits not available if Date attributes are used within the identifying reference data.

	Benefits provided by Attributes	Dates	Term	Comments
1	Attributes are used by traders when performing their price discovery function	No	Yes	Terms are the attributes 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	Attributes follow market convention	No	Yes	Existing proprietary identifier implementation by data vendors, MTFs and SEFs in the US is based on terms, not dates.
3	Attributes assure data quality and accuracy	No	Yes	Calculating a date from the term can be implemented precisely. Calculating a term 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 (and in scope of transparency) or a broken dated swap containing the additional day (and not in scope of transparency). Mistaken publication lowers data quality and utility of price feed because broken dated swaps are priced differently to benchmark swaps.
4	Attributes create meaningful price transparency across a time series	No	Yes	Using terms rather than dates as identifying reference data 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	Attributes provide 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 terms means market participants involved in price discovery are provided with the information they need upfront without requiring additional calculation steps.