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FAO: Financial Stability Board (FSB) and
Working Group on UTI and UPI Governance (GUUG)

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Response to Consultation on Governance Arrangements for the UPI: Key Criteria and Functions

Dear FSB and GUUG Members

The Derivatives Service Bureau (DSB) Ltd (DSB) appreciates the opportunity to provide comments for consideration in relation to the proposed governance criteria and governance functions for the UPI.

The DSB has been recently developed as an industry utility to service the needs of global market participants for provision of International Securities Identification Numbers (ISIN – ISO 6166) and their associated reference data for OTC derivatives, which include the Classification of Financial Instruments (CFI – ISO 10962) code and Financial Instruments Short Name (FISN – ISO 18774).

The DSB is a subsidiary of the Association of National Numbering Agencies (ANNA) and is governed by a Board of Directors whose core responsibility is to ensure the business and technical obligations imposed by the International Organization for Standardization (ISO) are met. ANNA, serving as the ISO appointed Registration Authority for ISIN and FISN, has oversight and enforcement responsibilities of numbering agencies adherence to ISO obligations such as operating on a cost-recovery basis and the principle of reasonable and non-discriminatory (RAND) access to and use of ISIN data.

The DSB also comprises a Product Committee which is an industry group that works beside the Board to oversee the definitions of a broad range of OTC derivatives and how they translate into data requirements for allocation of ISIN, CFI and FISN identifiers. The DSB Product Committee has ensured the adopted Product Definitions are extensible to multiple jurisdictions and as far as reasonably possible, consistent with CPMI-IOSCO's Technical Guidance on UPI. This approach will allow the auto-generation of UPIs from the existing OTC-ISIN metadata enabling a hierarchy representation of Instrument and Product to be achieved.

The DSB launched its real-time OTC ISIN service on 2 October 2017 and users can now create and obtain OTC derivative ISINs and their associated reference data to address regulatory reporting obligations and processing requirements.

Please find following our response to the consultation questions.

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Q1. Do you consider any further criteria should be included in the above list?

The DSB consider the list of key criteria for the UPI governance arrangements to be comprehensive and inclusive of the broad range of necessary factors.

Q2. Are there ways in which any of the key criteria should be modified? If so, which ones and how?

Each of the criteria, as currently stated, is relevant to UPI governance in its broadest sense. Given some elements of the UPI System are yet to be determined, such as if the UPI Data Standard will exist under the framework of an international standards body or, if there will be one or many UPI Service Providers and how this model may exist, consideration may need to be given to the co-existence of more than one governance arrangement within the UPI System.

Whilst criteria 4.11 'Consideration of Other Governance Frameworks' specifically relates to the impact of other Governance Frameworks that may impact data elements critical for OTC derivatives, consideration should also be given to the impact of other Governance Frameworks within the UPI System as this may impact the governance requirements of the UPI Service Provider and the application of the governance functions.

Q3. Should the UPI System operate on a cost recovery model? If not, what is the suggested alternative and how does it fit with other governance criteria?

We strongly agree that the UPI System should operate on a cost recovery basis which should include ensuring cost efficiency and transparency of costs.

Q4. How should cost recovery be defined in the context of UPI? How should a UPI Service Provider be permitted to recover its costs? Should start-up, infrastructure, and initial creation of UPI Code costs be treated differently than ongoing maintenance and other continuing costs of operating a UPI Service Provider?

Cost recovery should be defined to include all costs associated with the initial delivery and ongoing operations of the UPI Service Provider. This includes costs associated with the start-up, infrastructure, initial creation of identifiers, maintenance, ongoing operational costs and assurance of the financial sustainability of the service.

We believe costs associated with start-up activities should be distributed proportionately across initial and future users to ensure costs are borne as fairly as possible and to not overly burden the industry stakeholders in the very short-term. In any case, the utilisation of existing solutions where costs can be minimised due to existing resource and arrangements being leveraged, would be a major benefit to all stakeholders.

Q5. How should costs be allocated amongst stakeholders?

The DSB is in full agreement that costs should be allocated fairly amongst stakeholders. Through the recent experience of the DSB, launching a new service for the provision of ISINs for OTC derivatives, we recognise that it can be challenging to support the equitable distribution of costs across stakeholders when there is initially very little data available on factors such as number of users, volume of identifiers to be generated and frequency of use.

Stakeholder feedback to the DSB fee model consultation papers indicated that it was deemed fair that all beneficiaries of the data should contribute to the cost recovery and not only those users required to create identifiers. Due to this, factors such as timeliness for access to the data and functionality that places the most demand on the service have been used by the DSB as criteria for how costs should be allocate equitably amongst stakeholders.

It is also important to note that it is only appropriate that once relevant data is available to assist with fee model determination, the UPI Service Provider must remain engaged with stakeholders to ensure the adopted cost recovery mechanism/fee model remains fit for purpose.

Additionally, leveraging existing solutions to keep the allocated costs at a minimum should be a priority. The DSB has ensured the UPI can be auto-generated from the OTC-ISIN metadata, given the OTC ISIN is assigned at a more granular level than the UPI, meaning the cost associated with the UPI generation has already been accounted for within the DSB fee model i.e. the cost has already been allocated amongst stakeholders. This would be equally true for the inclusion of the CFI. Essentially, the marginal and fixed costs of generating the UPI and a related CFI is so low that it would be uneconomic to separate out.

Q6. How should a UPI Service Provider provide its rationale for calculating cost recovery? What level of transparency and frequency of disclosure of cost by a UPI Service Provider is required to demonstrate that the UPI System is being administered on a cost-recovery basis? For example, should a UPI Service Provider be required to undertake an audit or other type of review of its costs? To whom should transparency be provided (e.g. to Authorities and/or the public) and under what circumstances?

A UPI Service Provider should be able to demonstrate, at least annually, that their services are being provided on a cost-recovery basis. To ensure the reporting is fit for purpose, the use of an international auditing standard for third party assurance such as International Standards on an Assurance Engagement (ISAE) 3402, should be adopted. Use of a ISAE 3402 for third party assurance would enable relevant reporting to be provided to both the Authorities and public stakeholders in a consistent and replicable manner.

Additionally, in order to safeguard the operational viability and continuity of the UPI Service Provider operations, the Authorities should have the ability to access and review the financial information of the UPI Service Provider if there is deemed any threat or risk to the service provision.

Q7. Should there be different categories of users to describe entities that interact with the UPI Service Provider(s), utilise the UPI System, or access the UPI Reference Data Library in different ways, such as creation of a UPI Code versus leveraging an existing UPI Code, and at different frequencies? How should those categories be defined and should there be different associated costs based on the type and frequency of use of UPI Codes? How would different cost considerations apply to different aspects of the UPI System?

As detailed in the response to Q5, it can be challenging to support the equitable distribution of costs across stakeholders when there is initially very little data available regarding the intended use of the system.

Using factors such as types of access to the service and functionality that places the most demand on the service, as well as methods to adjust/weight fees such as using ratio's, can assist with how the fee model is applied. For example, a user subscribing for programmatic connectivity to the service for generation/consumption of UPI data is placing a considerably higher demand on the service versus a user only requiring manual access to the user interface for search/creation. On this

basis, it would be reasonable for the programmatic user to pay a higher fee compared to the manual user which may be appropriate to set as a ratio to indicate the weighting of increased resource/demand of the programmatic user.

Q8. Should access to, and use of, the UPI Reference Data Library (which includes the Data Elements therein) be unrestricted? If not, what types of usage restrictions would be appropriate and to whom should they apply? What would be the consequences, including for harmonisation, of having usage restrictions on the UPI Reference Data Library?

There must be unrestricted use of the UPI and associated record for the purpose of identification of OTC derivative products. This extends to access and use of the UPI Reference Data Library ensuring there is no barrier to adoption of the UPI.

With regards to access to and use of the UPI Reference Data Library, there is the necessity to have a balance in regulatory obligations being met whilst not impacting the financial sustainability of the service.

In relation to particular data elements, it is possible that restrictions may exist with regards to a specific element within a record, such as underlier identifiers however, it is imperative that these restrictions do not impose a limitation on the use of the UPI.

Q9. Should the UPI Reference Data Library be subject to any intellectual property restrictions? If so, what types of restrictions would be appropriate? What would be the consequences of having any intellectual property restrictions on the use of, or access to, the UPI Reference Data Library?

As per the response to Q8, there must be unrestricted use of UPI and associated record for identification of OTC derivative products. Whilst it is feasible that restrictions could apply to specific data elements, if these restrictions were to place a limitation on the use of the UPI, this could be detrimental to its broad adoption and implementation.

With regards to providing assurance to stakeholders in respect of access, use and distribution of the UPI Reference Data Library being free of intellectual property restrictions, this assurance can only be given where certainty of intellectual property rights exists. Therefore, it would be reasonable for the governance criteria to include a mechanism to protect the interests of the stakeholders.

Q10. Are there any types of ownership or membership structures of a UPI Service Provider that could create conflicts of interest? If so, please describe.

As long as a UPI Service Provider is able to fulfil the required criteria, the organisation structure should not be an impediment to participation.

Q11. What kinds of business continuity arrangements would it be reasonable to expect from a UPI Service Provider?

Given the potential for the UPI Service Provider to be a critical dependency for stakeholders, it is imperative that there is appropriate resiliency and business continuity built into the service provision.

It is reasonable to expect that there is no single point of failure in the network design, that infrastructure and network traffic are continuously monitored and annual testing of the failover processes is carried out.

Q12. What Governance Frameworks for other universal identifiers should or should not be considered in designing the UPI Governance Arrangements and why?

Consideration should be given to leveraging the governance frameworks of other identifier solutions which could reduce time, effort and resource for implementation as well as maximise use of established processes.

Existing models currently exist within the ISO framework which range from the appointment of an entity for implementation oversight of a standard (an ISO Registration Authority) to a governance process related exclusively to the development and continued evolution of an ISO standard.

Where the role of ISO Registration Authority exists, they have the responsibility for implementation, adoption and maintenance of the respective ISO standards, as well as ensuring adherence to ISO principles of cost recovery and reasonable and non-discriminatory (RAND) access and use of the data. ANNA currently fulfils this role in relation to the ISIN and FISN standards. The data standards continue to be developed and evolve under the respective ISO framework however, the Registration Authority is responsible for co-ordinating effort and timelines related to adoption and implementation. The Registration Authority is required to report to ISO on an annual basis confirming adherence to ISO obligations.

In respect of the Legal Entity Identifier (LEI - ISO 17442) standard, an alternate approach to the above exists where, although the development and continued evolution of the data standard occurs under the ISO framework, the implementation and adoption is co-ordinated through the Global LEI Foundation which is under the direct oversight of the international regulatory community via the Regulatory Oversight Committee.

Depending on the adopted model for the UPI System, insight could be achieved through further analysis of the frameworks detailed above.

Q13. Which elements of such frameworks would be useful or not useful for the UPI Governance Arrangements and why?

In order to leverage benefits of existing frameworks, synergies need to exist. Therefore, it is essential to have a clear view of the system and components to be implemented as different models may require consideration of a different governance structure.

The DSB, for the provision of OTC ISINs, has been established based on the principles of the ISO Registration Authority framework adhering to the obligations of operating on a cost recovery basis and the RAND principle.

Q14. Do you agree with the articulated areas of governance identified above?

The DSB consider the articulated areas of governance to be comprehensive and inclusive of the range of functions necessary.

Q15. Can you suggest any refinements or modifications to any of the functions therein?

In relation to implementation, function 5.2.2, focus appears to be on Authorities with no specific mention of co-ordination with the of the UPI Service Provider. Given the UPI Service Provider(s) will be operating on a global basis and potentially with an overlap of scope if multiple UPI Service

Providers are adopted, oversight of the UPI implementation of UPI Service Provider(s) should be incorporated.

Q16. Can you suggest any other functions that should be included in the above list?

Until the components of the UPI System are finalised, it is difficult to advise if any additional functions should be included. Currently, the functions cover the governance required for a broad set of possible scenarios.

Q17. Could a UPI Service Provider also be expected to develop human readable aliases for UPI Codes to satisfy the needs of particular jurisdictions or other stakeholders? Why or why not?

There already exists today an ISO standard, the Financial Instrument Short Name (FISN - ISO 18874), which provides a consistent and uniform approach to standardise short names and descriptions for financial instruments, designed as a human readable format. The FISN is currently being assigned at the point of ISIN and CFI creation by numbering agencies, including the DSB.

Q18. Are there functions in the list which are not relevant for the UPI in your view and if so which ones and why?

Until the components of the UPI System are finalised, it is difficult to advise if any of the functions will not be relevant. Currently, the functions cover the governance required for a broad set of possible scenarios.

Q19. Which entity or entities (or type of entity) would be best placed to perform each of the above governance functions?

The UPI Service Provider would be best placed to perform functions contained within 5.1 in conjunction with stakeholder input, where common processes are being determined, whilst some elements would be dependent on whether an international data standard is adopted, such as 5.1.3(a).

With respect to the functions detailed within 5.2, oversight of operational controls and activities of the UPI Service Provider could be incorporated into third party assurance reporting, such as ISAE 3402 which would enable all stakeholder's visibility of the UPI Service Provider adherence to governance requirements. Functional elements related to maintenance or changes to the UPI Data Standard should fall to the selected International Standards body.

Functions related to implementation should remain the oversight of the Authorities. However, stakeholder involvement to identify and promote use cases beyond regulatory purposes should be encouraged to ensure broadest UPI adoption possible.

Q20. Do you see a need for the UPI Reference Data Elements to be standardised by an International Standardisation Body and if so why? Are there aspects in which this would be impracticable? If so, please describe those aspects.

With respect to applying an international data standard for the development and ongoing maintenance of the UPI Data Standard, the International Organization for Standardization (ISO) has

a proven track record in this area. Identifiers such as the International Securities Identification Number (ISIN – ISO 6166), Classification of Financial Instruments (CFI – ISO 10962) and Legal Entity Identifier (LEI - ISO 17442) are just a few examples which exist under this framework.

The governance process under ISO enables global stakeholders to participate in both establishing and revising standards to ensure they remain fit for purpose whilst adhering to a governance structure which ensures relevant processes and due diligence are maintained. They enable contribution from a broad range of international experts which is critical for the continued development of a globally used standard.

Q21. What benefits of implementation of the UPI, if any, do you see beyond OTC derivatives reporting? Please justify your answer.

In order to achieve the greatest level of UPI adoption possible, it is critical that industry stakeholders can utilise the UPI beyond requirements for regulatory reporting obligations.

In the first instance, it is key to recognise the importance of the link between the UPI and other common identifiers at different levels of granularity. Embedding a hierarchy structure will guarantee high quality reporting and increase the usability for stakeholders as it allows the consistent re-use of data elements across the different levels of the hierarchy. As an example, the OTC-ISIN data elements are a superset of the UPI, creating an opportunity to ensure consistency of these two identifiers within a single, holistic instrument reference data framework.

Additionally, stakeholder engagement is critical to ensure potential use cases are captured and addressed as these will be fundamental to broader voluntary adoption of the UPI.

Q22. What would be the respective costs and benefits of the different potential models to administer the UPI System specified above?

Whilst several different models have been proposed for contemplation, there is a fundamental necessity to consider how the integrity of the data and the uniqueness and accuracy of UPI assignment will be assured.

Utilisation of a single UPI Service Provider is the most effective model to minimise complexity and costs, whilst assuring quality for implementation of the UPI System. Additionally, leveraging an existing industry solution would also increase the ease of adoption whilst stakeholders would also benefit from investments already made, reducing adoption/implementation costs.

Considering how multiple UPI Service Providers could exists, although not contemplated within the potential models, a model where a central utility exists, and UPI Service Providers connect to ensure synchronisation in real-time could be contemplated as a mechanism to facilitate an efficient model of multiple UPI Service Providers.

Where multiple UPI Service Providers connect to a central utility, the fundamental principles regarding data quality, uniqueness and consistency can be maintained.

Q23. What would be the impact on market participants and other key stakeholders of having multiple UPI Service Providers (whether across asset classes or serving the same asset class) in terms of:
(a) cost;
(b) ease of use of the UPI System;

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(c) their ability to conform to the UPI Technical Guidance; and
(d) their ability to associate UPIs with products in a timely manner at least to facilitate the discharge of reporting obligations for OTC derivative transactions?

In addition to the response to Q22, the introduction of multiple UPI Service Providers adds both complexity and cost to the UPI system and/or access to obtaining a UPI. Based on the recent experience of the DSB, industry feedback has been that users do not wish to be forced to connect to multiple service providers simply to have full coverage. Therefore, slicing UPI Service Providers by asset class is problematic, in both cost and complexity, for anyone who has cross asset needs.

Whilst individual UPI Providers will be able to conform to the UPI Technical Guidance, if a multiple UPI Service Provider model is adopted, an additional layer of governance will need to be introduced to ensure consistency and uniqueness of implementation and ongoing maintenance of the UPI System.

Q24. Should one or a limited number of UPI Service Providers be selected at the outset? Should the UPI Governance Arrangements allow for additional UPI Service Provider(s) to be incorporated over time?

The UPI governance criteria indicates that the UPI System should be implemented with unnecessary complexity or cost and should leveraging existing resources and arrangements. Based on this, the logical approach would be for a single UPI Service Provider to be selected. If additional UPI Service Providers are to be incorporated over time, utilising a central database to ensure data integrity is maintained should be a key factor for consideration.

If any further information is required in relation to our response, do not hesitate to contact me.

Best regards

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