

## **Governance arrangements for the unique product identifier (UPI)**

### **Second consultation document dated 26 April 2018**

#### **Optional response template**

**Instructions:**

*Submission of consultation responses via this template document is optional.*

*The document has been designed to be completed as a form in Microsoft Word. To assist with automated compilation of answers, users are only able to make changes in the spaces set aside for answers.*

*For the context of any question or for defined terms, please refer to the relevant parts of the consultation document.*

*Please save and submit the completed questionnaire as a Microsoft Word document, rather than converting it to a PDF. A password may be applied; in that case you should communicate the password by separate email or by telephone conversation arranged by email.*

*The FSB invites stakeholders to provide their responses by Monday 28 May 2018 by e-mail to [fsb@fsb.org](mailto:fsb@fsb.org) with “UPI Governance Arrangements” in the e-mail subject line. The feedback received will be taken into account in the FSB’s development of the UPI Governance Arrangements.*

*You may choose to leave answers blank – in that case it is acceptable to leave the answer reading “Click here to answer text”.*

*Should you wish to obtain an unlocked version of this template in order to facilitate sharing of draft answers in your organisation, please contact the FSB Secretariat on the email address above. In that case, you would still be requested to copy your answers to the locked version on the template to ensure accurate processing of the data.*

Questions	Answers
<b>Information about the respondent</b>	
<b>A. Name of respondent institution/firm</b>	Derivatives Service Bureau (DSB) Ltd
<b>B. Name of representative individual submitting response</b>	Emma Kalliomaki
<b>C. Email address of representative individual submitting response</b>	Emma.Kalliomaki@ANNA-DSB.com
<b>D. Do you request non-publication of any part(s) of this response? If so, which part(s)?</b>  <i>Unless non-publication (in part or whole) is specifically requested, all consultation responses will be published in full on the FSB's website. An automated e-mail confidentiality claim will not suffice for these purposes.</i>	No
<b>E. General information about the respondent institution/firm</b>	<p>The <a href="#">Derivatives Service Bureau (DSB) Ltd (DSB)</a> appreciates the opportunity to provide comments for consideration in relation to the second consultation on the proposed governance arrangements for the UPI.</p> <p>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.</p>

Questions	Answers
	<p>The DSB launched its real-time service in October 2017 operating 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. This includes the Classification of Financial Instruments (CFI – ISO 10962) code and Financial Instruments Short Name (FISN – ISO 18774). Users can create and obtain OTC derivative ISINs and their associated reference data to fulfil regulatory reporting obligations and processing requirements through a range of direct and indirect connectivity mechanisms.</p> <p>The DSB also comprises a <a href="#">Product Committee</a> 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.</p> <p>Additionally, the DSB is in the process of forming a <a href="#">Technical Advisory Committee</a> which will advise the DSB on future evolutions of the DSB technology platform to address changing market requirements.</p> <p>Please find following our response to the consultation questions.</p>
<b>F. General or introductory remarks</b>	<a href="#">Click here to enter text.</a>

Questions	Answers
<b>G. Date of response</b>	28.05.2018
<b>Consultation questions</b>	
<p><b><i>Q1. Do you agree a public-private partnership model such as the one sketched above should be adopted for the UPI Governance Arrangements?</i></b></p>	<p>The DSB supports the requirement for a public-private partnership model and believes the proposed model could provide a framework where balanced input and oversight of the overall governance functions could be achieved.</p> <p>To ensure the UPI public-private partnership model reflects the desired outcome, there is also a need for fair representation to be applied both jurisdictionally and in relation to industry sector. In particular, it is imperative there is no dominant representation leading to an inadequate balance in the governance framework.</p> <p>The DSB has seen engagement benefits through implementation of public-private partnership models in its Product Committee and during the recent formation of the Technical Advisory Committee. Details of the framework and membership composition, including public and private stakeholders, can be found on the DSB website:</p> <p style="text-align: center;">DSB Product Committee - <a href="#">DSB Product Committee Framework</a></p> <p style="text-align: center;">DSB Technology Advisory Committee – <a href="#">DSB TAC Charter</a></p> <p>With regards to the proposed separation/isolation of the Reference Data Library from the UPI Service Provider, the evaluation and rationale for such separation does not appear to be complete, which is supported by the lack of available information within Annex 4.</p> <p>Additionally, with regards to composition of the Industry Representation Group, it is important that no conflict of interest exists with regards to</p>

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	service provision of the Reference Data Library Operator or UPI Service Provider(s).
<p><b><i>Q2. Do you believe any governance functions in Annex 4 should be performed by a different body? If so, which ones and why?</i></b></p>	<p>Please find detailed below general comments and observations with regards to the functional allocations table -</p> <ul style="list-style-type: none"> <li>• Currently, the wording does not provide clarity as to the role and responsibilities of each party in relation to the designated functions. Terms are not defined allowing for broad assumptions as to what the role entails. For example, what is the meaning and/or functions for undertaking the roles of ‘Lead role’, ‘Stakeholder input and review’, ‘Operational policies/procedures’?</li> </ul> <p>Lack of clarity makes it challenging to confirm if any of the governance functions should be performed by a different body. There is a need for clear and defined roles and responsibilities for each of the governance functions in order to understand the requirements and expectations for each of the functional allocations. Only once these are clarified can consideration be given as to whether they are appropriately designated.</p> <ul style="list-style-type: none"> <li>• There doesn’t appear to be oversight functions related to the Reference Data Library Operator, apart from a brief mention in 5.2.1.c. Whilst this may be dependent on adoption of the final framework, it would be prudent to include details of the scope and oversight foreseen for the Reference Data Library Operator. The indication is no real evaluation has been given to its placements as a standalone element within the model.</li> <li>• There doesn’t appear to be governance functions related to fee model and cost-recovery although these matters are discussed within the core document. As above, it would be prudent to</li> </ul>

Questions	Answers
	<p>include details of the scope and oversight functions foreseen irrespective of who will carry out the roles.</p> <ul style="list-style-type: none"> <li>• There is an absence of the functional allocation of 'input &amp; review' from the Reference Data Library Operator and UPI Service Provider(s). Based on the current table, the Reference Data Library Operator and UPI Service Provider(s) will purely carry out operational functions but have no obvious function/mechanism to input or review on various functions including those they are responsible for providing.</li> </ul>
<p><b><i>Q3. How should any Governance Arrangements for the UPI System be funded?</i></b></p>	<p>The governance arrangements should be structured in such a way that they do not burden stakeholders with significant additional costs. The key criteria of providing a lean system should apply across the full framework with the objective to minimise complexity to the extent practicable and utilisation of existing resources and arrangements where possible.</p> <p>Whilst comparison with the Global LEI System governance framework has merit, it also has to be recognised that the identifiers being generated and maintained i.e. LEI and UPI, have very different purposes and lifecycles. Therefore, it is essential to ensure the UPI governance arrangements are fit for purpose in relation to the generation and maintenance of UPIs and not too top heavy or disproportionate in relation to the operational requirements.</p> <p>A model where the Unique Identifiers Regulatory Oversight Committee or Industry Representation Group do not have requirements to establish any operational activities, such as the Reference Data Library Operator, would ensure there are no duplication of costs or resource which are already required as part of the function of the UPI Service provider(s). If these bodies remained purely supervisory, any costs associated with</p>

Questions	Answers
	governance are likely to be related to administration and travel for meetings held and could be factored into the cost recovery requirements of the Reference Data Library Operator and/or UPI Service Provider(s).
<p><b>Q4.</b> <i>Do you consider the Governance Arrangements described in section 3 above are appropriate and adapted to provide oversight on fees and cost recovery?</i></p>	<p>The arrangement set out in section 3, with proposed functional allocation in Annex 4, could serve to provide oversight on fees and cost recovery however, this would need to be supported by appropriate independent review such as audit or third-party assurance reporting e.g. ISAE 3402. However, as mentioned in response to question 2, there is a need for clear and defined roles and responsibilities for each of the governance functions in order to understand the requirements and expectations for each of the functional allocations. There is currently a general lack of clarity and more specifically, a lack of content, in relation to governance functions over the fee model and cost-recovery.</p>
<p><b>Q5.</b> <i>Please provide any specific suggestions to promote adherence to the cost and open access criteria, including suggestions relating to escalation procedures, including complaint handling bodies and processes.</i></p>	<p>As there is no standard definition for cost-recovery or open-access, it would be beneficial to have clear and consistent definitions determined. In particular, if there are multiple UPI Service Providers, there needs to be a consistent method of ensuring adherence and common definitions are required.</p> <p>In relation to escalation procedures, utilising mediation before arbitration or referral to court is the preferred method for dispute resolution. The DSB incorporates within our dispute resolution policy the mediation services of the Centre for Effective Dispute Resolution (CEDR) <a href="http://www.cedr.com">www.cedr.com</a> and their <a href="#">CEDR Model Mediation Procedure</a>.</p>
<p><b>Q6.</b> <i>If you believe that start-up costs should be fully recovered by a UPI Service Provider, how should they be allocated between earlier-</i></p>	<p>The DSB does believe that start-up costs should be fully recoverable and explored the topic of spreading these costs between the earlier and later</p>

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<p><i>and later-arriving subscribers? For example, over how many years should the start-up costs be amortised?</i></p>	<p>arriving subscribers when developing the 2018 fee model for provision of OTC ISINs.</p> <p>Details regarding the DSB start-up costs and amortisation proposal were included in the <a href="#">DSB Fee Model Consultation 2 of 2017</a> which assisted the DSB on how to move forward. Part of the aim is to not overly burden the industry stakeholders in the very short-term whilst ensuring a fair as possible distribution of costs across initial and future users. On this basis, and as a result of the feedback received, the DSB has amortised start-up costs over a 4 year period.</p>
<p><i>Q7. If revenues for a year have exceeded or fallen short of anticipated costs for that year, should the UPI Service Provider have a mechanism for rebating or recovering the excess, either during that year or at a later time?</i></p>	<p>Yes, any excess fees collected should be rebated to the user base to lower fees for the subsequent period and conversely, any short-fall should be recovered.</p> <p>The DSB has explicitly included within our legal documentation the treatment for excess and shortfall of fee revenues. The <a href="#">DSB Charges Policy</a> (paragraph 9) stipulates that fees received within the scope of the cost recovery service and that are in excess of the Actual Total DSB Cost (“Excess Fee Income”) will be used to reduce the fees of the DSB for the following year. Additionally, the calculation of the Actual Total DSB Cost allows for adjustment related to the previous years’ cost (paragraph 2.2 of the Charges Policy) when calculating the following years fees. Therefore, the DSB has a formal and transparent mechanism for handling both scenarios.</p> <p>In addition to have a clear and defined mechanism for rebating or recovering the excess fees, there shouldn’t be a case where forecasted costs/revenues are surprisingly higher/lower than anticipated. Any divergence from the approved budget should have clear rationale or</p>



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	<p>justification with an additional expectation that stakeholders have been engaged in the process to agree any additional intra-year costs. As part of transparency and oversight, requiring annual forecasts and budgets for the years activity is essential for monitoring and tracking costs/revenue as well as a mechanism to assist with measuring effective cost management.</p>
<p><b><i>Q8. Do you believe that a UPI Service Provider should be allowed to cross-subsidise the provision of UPI Services with revenues from other business lines, either with regard to start-up costs or on an ongoing basis? Why or why not?</i></b></p>	<p>Cross-subsidisation of UPI Services with revenues from other business lines has the potential for both positive and negative outcomes. It is also impacted by whether there is one of multiple providers.</p> <p>As a positive, cross-subsidisation of revenue from other business lines can enable all users to benefit from a cheaper provision of service. This is particularly beneficial in a single UPI Service Provider model as it would not create a disadvantage to other Providers. However, in a multiple UPI Service Provider model, it could mean a provider can utilise their position to create a competitive disadvantage by removing equal entry into the framework.</p> <p>For example, a firm positioning itself as a UPI Service Provider who has the resource and infrastructure to provide the service at reduced or without cost, would automatically remove competition.</p>
<p><b><i>Q9. Should a UPI Service Provider be permitted to provide value-added products and services (i.e., products and services that incorporate UPI data but are not required by the UPI Technical Guidance)?</i></b></p>	<p>Yes however, there would need to be a clear distinction/driver as to whether the value-add products and/or services should be captured as cost recovery. The justification being that the stakeholders may require additional solutions to assist in fulfilling obligations linked to UPI usage and it is reasonable that stakeholder would want to derive additional value from the service provision.</p>

Questions	Answers
	Where industry agrees that value-add products are deemed not to fall within the cost-recovery mandate, all associated costs would need to be apportioned appropriately, separated from the cost recovery accounting and validated by an independent third-party assurance process.
<p><b><i>Q10. What is your evaluation of the risks of restrictive practices limiting open access, e.g. through the bundling of UPI Services with value-added services? How and by whom could such practices be prevented or restricted?</i></b></p>	<p>The provision of ISO standards under the cost recovery mandate does not permit the bundling of services. It would be recommended for guidance to be provided to ensure the UPI Service Providers follow accepted best practice on competition issues, including for example not favouring bundled services over standalone services, or otherwise forcing users to adopt a bundled service. The DSB already follows such best practice policies.</p>
<p><b><i>Q11. Should a UPI Service Provider that engages in other business activity be required to “ring fence” its UPI functions? If so, what sort of corporate, legal, and/or accounting mechanisms would be necessary to effect such an arrangement?</i></b></p>	<p>It is a reasonable request for a UPI Service Provider that engages in other business activity be required to “ring fence” its UPI functions. This can be done through having a separate accounting mechanism to ensure the financial profiles are segregated. The separation of these activities should also be validated as part of a recognised third-party assurance process. The DSB has adopted the internationally recognized third party assurance process of ISAE 3402 which includes assurance of the segregation of the OTC ISIN service provision.</p> <p>Whilst the DSB believes the above model of independent third-party validation to be a sufficient mechanism to ring fence UPI functions, there is specific scope within the structure of the DSB to allow for restructure of the company so that cost recovery services are carried out in a separate legal entity to conform with regulatory requirements. Therefore, the DSB has the flexibility to effect a more formal process if required.</p>

Questions	Answers
<p><b><i>Q12. Should ownership of any intellectual property created by a UPI Service Provider be assigned to a third party in order to maintain and ensure continuation of open access in the event that the provider were to become insolvent or subject to administration or voluntarily withdraw? If so, how should that third party be structured?</i></b></p>	<p>Clearly there is a need for assurance that stakeholders won't face unexpected issues related to intellectual property rights. Therefore, it is prudent to include a mechanism to protect the interests of all stakeholders by structuring an appropriate mechanism to safeguard the framework. Bearing this in mind, it would be reasonable for ownership of any IP in the cost recovery activities of a UPI System to reside in a central place being either RDL Operator or a Special Purpose Vehicle set up for the purpose.</p>
<p><b><i>Q13. Should access to a vendor-proprietary identifier in the UPI Reference Data Library be limited to only those market participants who have a corresponding license agreement with the respective vendor? If so, how should that underlying asset or index be identified for non-licensees?</i></b></p>	<p>No, the UPI record comprising the UPI Code and the associated UPI Reference Data Elements should have no restrictions associated with inclusion of proprietary identifiers when used as part of the record.</p> <p>It is imperative that the restrictions of proprietary identifiers do not impose a limitation on the use of the UPI. Similarly, the DSB has ensured third-party restrictions do not limit use of the OTC ISIN and associated Reference Data. This has been achieved through executing an agreement with relevant third-parties to confirm the underlying proprietary identifier can be used as part of the OTC ISIN record without restriction. If a user wishes to extract or utilise the underlier identifier separate to the ISIN record, an appropriate agreement will need to be obtained with the proprietary vendor.</p>
<p><b><i>Q14. Do you believe that wherever possible elements within the Reference Data Library should use established International Data Standards?</i></b></p>	<p>Yes, wherever it is possible to do so. Standardisation is a fundamental aspect of ensuring consistency, quality and integrity of data. Leveraging existing standards, which are likely to be embedded into existing processes and workflows can only further aid implementation and adoption of the UPI System by stakeholders.</p>

Questions	Answers
<p><b><i>Q15. Do you agree that, for similar reasons as were traversed in the UTI Consultation, the ISO is the most appropriate body to undertake the functions of an International Standardisation Body for the UPI?</i></b></p>	<p>Yes, ISO has a proven track record in this area. The ISO governance process enables global stakeholders to participate in both establishing and revising standards to ensure they remain fit for purpose. Additionally, ISO has a defined governance structure which ensures relevant processes and due diligence are maintained. 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.</p>
<p><b><i>Q16. Do you think it desirable that all elements in the UPI Reference Data Library be subject to ISO standards?</i></b></p>	<p>Not necessarily. Whilst it is important to utilise standards where they exist, it should not be assumed that every element must be subject to formal standardisation. Over time it will become more apparent which elements require formal standardisation. Whilst this determination is being made, there will be a minimum requirement to specify common formats &amp; structures to ensure a high standard of data quality is captured.</p>
<p><b><i>Q17. Do you agree with the FSB’s preliminary conclusions about codelists and related topics in section 5.3 above?</i></b></p>	<p>In principle the DSB agrees with the conclusions about codelists however, with respect to the second bullet (‘...a codelist that is external to ISO, or is a proprietary identifier, the exact value as it appears in the codelist, or as published by the issuer of the proprietary identifier, should be used and the source of the value should be provided’), it is in our experience that there are often discrepancies in the naming conventions within the list of the same proprietary identifier publisher. To mitigate this issue, there would be a need to establish authoritative sources for consistency in approach for capturing and maintaining the quality of proprietary vendor data.</p>

Questions	Answers
<p><b><i>Q18. If you believe that the UPI data can and should be used for purposes other than solely regulatory reporting, describe in detail and provide specific examples of any such additional purposes.</i></b></p>	<p>In order to achieve the greatest level of UPI adoption as cost-effectively as possible, it is critical that industry stakeholders can derive benefits of the UPI beyond requirements for regulatory reporting obligations.</p> <p>Output from ISO TC68 / SC4 / Study Group 2, from which the DSB design was based, highlighted the critical importance of creating an identification hierarchy. The link between the UPI and other common identifiers, such as the OTC ISIN, providing different levels of granularity 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.</p> <p>Whilst the DSB currently only offers a single level of identification, represented by the OTC ISIN, the system and product definitions have been designed so additional levels of granularity can be generated off the existing data set. The design means the current 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.</p> <p>Ultimately, the OTC-ISIN design allows the UPI to be generated from the OTC-ISIN data thereby reducing costs to industry by leveraging existing ISO datasets.</p>
<p><b><i>Q19. Considering the pros and cons of each of the above-mentioned models (Single UPI Service Provider model or Competitive model), what would in your view be the most suitable? Please provide detailed reasoning.</i></b></p>	<p>Ultimately, both models will work as long as they are supported by an appropriate governance framework and funding model.</p> <p>With respect to the comments made in relation to the pros and cons of each models, we disagree that a single UPI Service Provider could be challenged to obtain the necessary expertise to adequately service all</p>

Questions	Answers
	<p>asset classes, which might delay implementation of the system. This is a broad assumption and, in any case, given the input and engagement with industry stakeholders, any lacking expertise could be easily sourced. This has been demonstrated by the DSB achieving operational status across all asset classes within 10 months of the DSB Product Committee being formed.</p> <p>Utilisation of a combined Reference Data Library Operator and UPI Service Provider would appear to be 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.</p> <p>The DSB today operates a model which can be aligned with the multiple service provider model combining the Reference Data Library operations with UPI Service Provider functions.</p> <p>The DSB operates a central utility which houses the OTC ISIN data in addition to aspects related to the data elements, comparable to the Reference Data Library. Additionally, the DSB has a category of users known as Intermediaries who facilitate access to third parties to search and request generation of OTC ISINs, comparable to the perceived role of multiple UPI Service Provider(s). As well as the indirect access via Intermediaries, the DSB also permits direct access, so also acts as UPI Service Provider. The direct access capability establishes a baseline service for the marketplace that Intermediaries can look to exceed within their specific market segments.</p>

Questions	Answers
	<p>Given the current role of the DSB, we recognise the potential for the DSB to act as both the Reference Data Library Operator and as a UPI Service Provider (as part of a single or multiple provider solution) and believe cost optimisation and workflow efficiencies can be leveraged through this model.</p>
<p><b><i>Q20. Do you believe that there should be a single UPI Reference Data Library if multiple UPI Service Providers coexist in the UPI System? Why or why not?</i></b></p>	<p>Yes, as this is the only mechanism to ensure uniqueness of UPI generation across the UPI System.</p>
<p><b><i>Q21. What would be the value added in having competing UPI Service Providers if there was a single entity centrally managing the UPI Reference Data Library?</i></b></p>	<p>Having multiple UPI Service Providers would allow for competition across UPI Service Providers leading to greater service offerings and potential for lower costs for stakeholders. However, given the anticipated volumes of UPI, it raises questions regarding the potential business case and opportunities to maintain a competitive model.</p> <p>The DSB intermediary model provides many of the benefits of competition in a cost-effective manner whilst ensuring high data quality through centralisation of the core identifier generation itself.</p>
<p><b><i>Q22. How could the applicable technical principles and governance criteria mentioned in section 6.1 be followed if there were multiple UPI Service Providers?</i></b></p>	<p>The simplest mechanism to guarantee uniqueness and consistency is to mandate the Reference Data Library Operator as the single golden source of the UPI Record. This in turn means that UPI generation should be the preserve of the Reference Data Library Operator and not the UPI Service Provider. The role of the competing UPI Service Providers should be to provide different access models, pricing models, service models where they can add value by targeting specific industry and user sub-categories. This is the model of the DSB via the 'Intermediary' user category.</p>

Questions	Answers
	<p>Ease of assignment/retrieval/query can be enhanced by mandating each UPI Service Provider to provide, as a baseline service, the UPI information in the Reference Data Library format. UPI Service Providers can then innovate by providing other formats/enrichments that users could subscribe to if they wish. This could include the Reference Data Library Operator providing a direct service with the baseline functionality that intermediaries could then exceed for their chosen market segment.</p> <p>The DSB's user agreement has a specific carve-out for intermediaries that provide the OTC-ISIN data un-modified, by excluding the Intermediary from any fees associated with distribution. In this scenario, the cost recovery mandate falls only on the end-user of the intermediary and not the intermediary itself, thereby encouraging competition and diversity within the intermediary ecosystem.</p>