

Derivatives Service Bureau (DSB) Ltd.

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ROC

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Re: ROC Consultation on Version 3 of the CDE Technical Guidance.

FAO: ROC Secretariat

The Derivatives Service Bureau (DSB) welcomes the opportunity to comment on the Regulatory Oversight Committee (ROC) Consultative Document Revised CDE Technical Guidance – version 3. Our response is focused on the provision of a Crypto Asset Underlier Indicator specified in 2.106.

DSB background and designation

The DSB is a legal subsidiary of the Association of National Numbering Agencies (ANNA). ANNA is a global membership organisation of National Numbering Agencies (NNAs) comprising Stock Exchanges, CSDs, Central Banks, Data Vendors and Regulatory Bodies.

The DSB was established in response to requirements for ISIN to be the single identifier used for the purposes of market surveillance under the EC Delegated Act of the EU Parliament and Council of 14th July 2016, supplementing EU Regulation 600/2014 on markets in financial instruments, and thereafter expanding the scope of International Securities Identification Numbers (ISINs) to OTC derivatives.

Additionally, the DSB is poised to augment its role reflecting the designation by the Financial Stability Board (FSB) as the sole service provider of the future Unique Product Identifier (UPI) as well as operator of the UPI reference data library¹. The DSB continues to work with stakeholders to make the UPI globally available.

DSB role

The DSB is a global numbering agency for OTC derivatives serving the needs of market participants through the allocation of ISINs (ISO 6166), Classification of Financial Instruments codes (CFI – ISO 10962) and Financial Instrument Short Names (FISN – ISO 18744), all globally recognised and adopted ISO standards for identifying, classifying and describing financial and referential instruments.

DSB services a diverse range of institutions (70% free of cost), spanning almost 500 institutions across a broad range of organisation types, with an underlying technology platform that is built to support multiple taxonomies of definitions and descriptive data, as well as numbering in near-real-time. The DSB is motivated and committed to bring greater transparency and integration within the OTC derivatives market, enabling institutional investors to standardise data and for national, EU regional and transnational regulators to more robustly monitor potential cases on a national and cross-border scale of market abuse, price manipulation, and risks to the financial stability.

¹ <https://www.fsb.org/2019/05/fsb-designates-dsb-as-unique-product-identifier-upi-service-provider/>

ANNA is responsible for evolving and promoting the ISIN standard through its work and collaboration with members, regulators at national, EU regional and transnational level, and the industry at large. As a result, today ISINs are issued in more than 200 jurisdictions worldwide enabling global cross-border trading and improved transparency. This underlines ANNA's commitment and mission to promoting the use and adoption of global standards which includes the alignment of ISIN with additional complimentary ISO standards such as FISN, CFI and Legal Entity Identifier (LEI - ISO 17442).

ISO standards have global recognition and a proven governance framework to ensure they evolve in line with user and market requirements. Within the financial services industry, these standards drive market efficiency, reduce operational risk and contribute to the development and proper functioning, and transparency, of financial markets.

DSB works with the EC, ESMA and the ECB in contributing to improve data quality and provides greater data aggregation and analysis opportunities for both public authorities and other market participants.

DSB Response to the Consultative Document

As the official generator of ISINs (ISO 6166) and forthcoming UPIs (ISO 4194) for OTC derivatives the DSB brings together industry and regulatory experts through its Product Committee (PC) to advise the DSB Board on the most suitable way in which OTC derivative products should be defined, maintained, enhanced and governed. The PC serves as part of the Industry Representation Group (IRG) (along with the DSB Technology Advisory Committee) and, in response to a number of industry queries and discussions, launched the Digital Asset Strategy Sub Committee (DAS-SC) to take a lead in defining a common approach to key aspects of digital asset reporting and act as a catalyst to help both regulators and industry move forward.

The DAS-SC brings together interested parties from across the industry (including sell-side institutions, venues, trade associations and regulators) with the objective of agreeing an industry approach to the assignment of globally consistent and unique UPIs based on a common methodology for the classification and identification of digital assets – focused on (but not limited to) their use as underliers to OTC derivative products.

It is within this context that the DSB would like to submit the following comments concerning the provision of a Crypto Asset Underlier Indicator specified in 2.106 of the “Revised CDE Technical Guidance – version 3 Consultative Document” published by the ROC.

The DSB supports the provision of a Crypto Asset Underlier Indicator specified in 2.106 of the “Revised CDE Technical Guidance – version 3 Consultative Document” published by the ROC. While it is acknowledged that a security may be issued, traded and custodied (as a fungible instrument) on both a Digital Ledger Technology (DLT) and in the traditional way, the majority of digital asset underliers are currently issued solely on a DLT.

Further, research shows that derivatives markets accounted for over half (52%) of the crypto-currencies traded, suggesting that volumes exceeded those in cash markets (Source: CryptoCompare 2022). These specific derivatives markets have grown eight-fold to June 2021, when a total of US\$2tn of structures products changes hands on trading venues

For this reason, the DSB would welcome working with the ROC within our IRG governance model on the concept of supporting a similar indicator within the relevant UPI Product Definitions. The specification of a UPI Product Flag would provide an aggregating data element at the level

of the Product while also supporting digital indication at the Transaction level for more complex (hybrid) issuance through the proposed CDE Crypto Asset Underlier Indicator.

The DSB acknowledges and supports the notion that, at EU and US levels “...further guidance on reporting of derivatives on crypto assets may be developed at a later stage” and would like to provide the following comments on this proposal:

- The proposed guidance for the Crypto Asset Underlier Indicator would benefit from a description of how a derivative based on a mixture of traditional and digital underliers should be indicated since a Boolean flag may not provide the required flexibility.
- The proposed guidance for the Crypto Asset Underlier Indicator would benefit from a description of what constitutes a digital underlier. For example, if the underlier of a Swaption (the Swap) is based on a digital underlier, would it be appropriate to set the Crypto Asset Underlier Indicator to “True”? A similar situation may be encountered with ETFs, Indices, Basis-style Products etc.

Sincerely



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