

Brussels, 27th February 2009

RESPONSE Ref: CESR/09-074

**CESR CALL FOR EVIDENCE ON THE TECHNICAL STANDARDS TO IDENTIFY AND CLASSIFY OTC
DERIVATIVE INSTRUMENTS FOR TREM; CESR's TRANSACTION REPORTING EXCHANGE MECHANISM**

I. Introduction

The Federation of European Securities Exchanges (FESE) is a not-for-profit international association (AISBL) representing the interests of 23 Market Operators which operate a total of 42 exchanges (Regulated Markets and MTFs) in equities, bonds, and derivatives. FESE Members come from all the EU Member States and Iceland, Norway and Switzerland, as well as 7 Corresponding Members from European emerging markets.

FESE welcomes the opportunity given by CESR to respond to the call for evidence on the technical standards to identify and classify OTC derivative instruments for TREM; CESR's transaction reporting exchange mechanism.

II. FESE response to CESR's call for evidence on the technical standards to identify and classify OTC derivative instruments for TREM; CESR's transaction reporting exchange mechanism.

FESE views transaction reporting as a valuable tool of MiFID's objective of ensuring market integrity and preventing market abuse in EU markets. Our experience with the implementation of the transaction reporting provisions included in MiFID article 25(3), by which investment firms shall report details of transactions executed in financial instruments admitted to trading on a regulated market to their competent authorities, has been largely positive. In particular, following discussions with CESR, FESE successfully coordinated the work of a group of trade bodies and organisations ('Industry Coalition'¹) from a broad cross-section of the European financial services community with the purpose of finding a suitable methodology to uniquely identify securities derivatives for the purpose of transaction reporting in those markets and contracts where identifying instruments to the level of detail required (i.e. at series/settlement level) could not be achieved in a practicable manner using ISIN codes. As a result of these discussions, an Alternative Instrument Identifier (All) was created which consists of a subset of the fields described in Annex 1.

Based on our experience, we believe that a transaction reporting exchange mechanism for OTC derivatives instruments would be useful for the industry, as demonstrated by those Member States that have already used Recital 45 of MiFID to extend the scope of transaction reporting to these instruments. We would however be cautious in expanding this solution into a sort of data warehouse as we understand this would go beyond the objectives of the transaction reporting exchange mechanism and should potentially emerge as an industry-led solution. FESE members on the whole (as Regulated Markets) do not currently need to use their own technical standards to classify and identify OTC derivative instruments. However, any transaction reporting exchange mechanism for OTC derivative instruments should be based on the existing framework used for financial instruments admitted to trading on regulated markets which use the All. The format for the All will need some amendment to allow non-standardised

¹ The list of the organisations which have cooperated on this dossier includes: the European Association of Cooperative Banks (EACB), the European Association of Savings Banks (ESBG), the European Banking Federation (EBF), the Federation of European Securities Exchanges (FESE), member associations of the MiFID Connect, Zentraler Kreditausschuss (ZKA), as well as individual banks with major transaction reporting involvement which are members of one or more of these associations.

contracts to be reported e.g. contracts such as swaps which are neither futures nor options but we believe this is a useful starting point on which to develop a transaction reporting mechanism. We remain at CESR's disposal to provide an appropriate level of technical guidance based on our experience with the transaction regime implemented for regulated markets.

III. Conclusion

We would like to confirm our support for the implementation of a transaction reporting exchange mechanism for OTC derivative instruments and express our availability to CESR for an appropriate level of technical guidance based on our experience with the implementation of the All for certain derivatives instruments traded on regulated markets.

Annex I – The Alternative Instrument Identifier (AII)

Exchange Code – this is the four character MIC code of the regulated market that admits the derivative to trading. This element of the code is described in field 21 (venue identification) of Annex 1 of the MiFID level II text.

Exchange Product Code – this is a code maintained by the derivative exchanges and is freely and generally available to all parties. It is between one and 12 characters in length and is uniquely associated with a particular underlying instrument and settlement type and other characteristics of the contract. This element of the code is described in field 6 of Annex 1. This proposal will necessitate use of Instrument Code Type (field 7). The regulated markets will supply the reference data, including underlying ISIN, that are uniquely associated with the combination of MIC and exchange product code.

Derivative Type – This is a single character field identifying whether the instrument is an option or a future. This element of the code is described in field 12 of Annex 1.

Put/Call Identifier – This is a single character field identifying whether the option (if it is an option) is a put or a call. This element of the code is described in field 13 of Annex 1.

Expiry/Delivery/Prompt Date – This element of the code is described in field 11 of Annex 1.

Strike Price – This element of the code is described in field 14 of Annex 1.

These elements are used instead of an ISIN code to identify an instrument in transaction reports and they collectively constitute the Alternative Instrument Identifier for an instrument.

The reference format for the Alternative Instrument Identifier is the following:

Data element	Maximum length	Format
Exchange Code	4 characters	Will always be 4 characters (ISO MIC code)
Exchange Product Code	12 characters	Up to 12 alphanumeric chars, no space padding
Derivative Type	1 character	Always 1 alpha character
Put/Call Identifier	1 character	Always 1 alpha character
Expiry/Delivery/Prompt Date	YYYY-MM-DD	Always 10 alphanumeric chars (including separators), conforms to ISO 8601
Strike Price	19 characters	Up to 19 numeric characters including up to five decimals with a point (ASCII character 46) as the decimal separator and without any leading or trailing zeros