

CESR Public Consultation

(Ref.: CESR/06-648b)

Use of reference data standard codes in transaction reporting.

***Comments by the French Association of Investment Firms (AFEI)
and MIFID Forum France M2F***

1. The French Association of Investment Firms (AFEI) represents investment service providers active in France. Its members include more than 120 investment firms and credit institutions authorised to provide investment services. Approximately one-third of AFEI members are subsidiaries or branches of foreign institutions.

AFEI has contributed actively to all the discussions and consultations relating to the Markets in Financial Instruments Directive (MiFID).

2. In June 2006, AFEI, together with other market participants (professional associations, IT providers, data vendors, market infrastructures and consultants), set up a technical forum, MiFID Forum France (M2F), to address all the common technical issues related to the concrete implementation of that directive.

The response to CESR's public consultation 06-648b has been prepared by AFEI and M2F and is endorsed by the following associations: **French Banking Federation (FBF)**, **Financial Data Vendor Association (FDVA)**, **Association Française des Professionnels du Titre (AFTI)**, and **Commission des Services et Systèmes d'Informations destinés aux Opérateurs de Marché (COSSIOM)**. As intermediaries, data consumers, data aggregators, data vendors and custodians, these associations are strongly impacted by the use of reference data standards.

3. AFEI and M2F welcome CESR's public consultation on the use of reference data standard codes in transaction reporting.

4. Before answering the specific issues covered by the consultation, AFEI and M2F would like to point it out four important issues relating to transaction reporting.

A. – ISSUES RELATING TO TRANSACTION REPORTING

➤ Timing

5. Transaction reporting involves extensive IT work for investment firms and regulators. It means that investment firms have to build new systems (or modify existing ones), carry out internal tests to be sure that

these systems work properly and perform external tests with various regulators to verify that what the firm sends is what the regulator expects. AFEI and M2F consider that a period of **nine months** is necessary to achieve this process and that, in **no case, could this process be achieved in less than six months**.

In practice, this means that the **technical arrangements for transaction** reporting should ideally be announced by regulators at the end of January and **in no case after the end of March**. If European regulators as a whole are unable to respect this timeframe, **it is clear that investment firms would not be able to comply with the new reporting regime on 1 November 2007**.

➤ ***List of financial instruments eligible for transaction reporting***

6. According to Article 27 (3) MiFID, investment firms have to report their transactions in any financial instruments admitted to trading on a regulated market. According to Article 13 of the Commission Regulation (EC) No.1287/2006, Member States are authorised to require reporting for financial instruments not admitted to trading on a regulated market.

At present, investment firms' databases do not always permit them to identify all the financial instruments admitted to trading on a regulated market within Europe. The problem is even more acute when considering financial instruments that are not admitted to trading on a regulated market.

For this reason, AFEI and M2F **find it necessary** that CESR, or its members, **provide investment firms with the list** (in a format that we have to determine) **of the financial instruments that come under the reporting provision**.

➤ ***Definition of a transaction made by a branch***

7. AFEI and M2F consider that it is currently not clear when a transaction is made by a branch and therefore has to be reported to the host regulator. Do we have to take into account the place where the transaction is booked, the location of the traders in charge of the transaction, the location of the client or other criteria?

AFEI and M2F **urge CESR regulators** to give market participants **a common answer** in order to avoid double reporting or a lack of reporting.

Here again, AFEI and M2F would like to point it out that it is important to have a rapid answer. Indeed this is a pre-requisite for investment firms to begin developing or upgrading their reporting systems.

An initial first analysis by AFEI and M2F suggests that the criteria for transaction reporting should be the place where the transaction is booked.

➤ ***Transactions that have to be reported***

8. AFEI and M2F consider that only the transactions **directly executed** by the investment firms have to be reported to the regulators. **When an investment firm receive or transmit orders, no regulatory reporting is required under MIFID provisions**. AFEI and M2F would like CESR to confirm this analysis in order to avoid various interpretations among CESR's members.

B. – Use of reference data standard codes in transaction reporting

9. Before answering the specific questions raised by CESR in the consultation paper, AFEI and M2F would like **to emphasise four general principles** that shall be adopted when discussing this important issue.

Principle 1

10. Strict adherence to the use of standards which **are open and free of charge** is a fundamental prerequisite.

Principle 2

11. Standards used among CESR members and those used between investment firms and their local CESR member **should be strictly identical**.

Principle 3

12. Standards used **for transaction reporting** have to be **strictly identical**, where applicable, to those used in the area of **pre- and post-trade transparency**.

13. In both cases (principle 2 and principle 3) AFEI and M2F believe that there is no well-founded argument that **would justify the existence of two distinct set of standards to satisfy the regulatory community**.

Principle 4

14. Taking into account not only European but also non-European views, standard setters and the corresponding registration authorities have procedures in place to implement new standards and to amend existing ones. Any change in an existing standard specifically due to MiFID requirements would be subject to these procedures, which are time-consuming. CESR should therefore establish and maintain a permanent dialogue with standard setters and registration authorities

Answer to the questions raised by CESR

A. Do you think that the standards chosen by CESR are the relevant ones?

15. Among the existing standards, those chosen by CESR are **basically the relevant ones**. However, some of them do require comment. See our answer to question D.

16. AFEI and M2F wish to add a comment on the **IBEI code (ISO 16372)**. The International Business Entity Identifier (IBEI) specifies the elements needed to identify uniquely and unambiguously any business entity "playing a role in the lifecycle of, and events related to, a financial instrument"¹. As it is conceived, the IBEI is the most appropriate solution for identifying business entities within the context of MiFID. However, this code is still in a consultation phase and is very unlikely to be ready as a formal ISO standard by 1 November 2007. This said, AFEI and the M2F understand that some of the European numbering agencies will start allocating the IBEI code in their respective jurisdictions in early 2007. AFEI and M2F would advise CESR to contact the Association of National Numbering Agencies (ANNA) to discuss this issue.

B. What would be the benefits if these standards were also widely used in reporting by the investment firms to the local CESR Member?

17. The poor degree of standardisation on financial markets has long been recognised as a major barrier to integration. The benefits of using international standards within the context of MiFID implementation have to be understood as a concrete step towards the creation of a single financial market in Europe.

18. On this particular issue, AFEI and M2F consider that the use of these standards by investment firms to report to the local CESR member would reduce the costs of implementing the new regime. This is based on the following considerations :

- In most cases, investment firms in France operate in more than one European country via subsidiaries and/or branches. This implies that they have to report their transactions in more than one jurisdiction, and will continue to do so.
- Even if common coding standards were not adopted, investment firms would have to modify the current reporting systems in order to be compliant with the new reporting regime. In France, for instance, the existing reporting system, RDT, is not fully MiFID-compliant and this is probably the case in all countries where a reporting system is already in place.
- Accordingly, investment firms will in any case have to allocate IT resources in order to modify their existing systems and to test that they work properly.
- On one hand, introducing common coding standards in the reporting system will marginally increase the cost of the modifications. On the other hand, common coding standards will allow investment firms to build a single database for reporting in various countries in Europe. The economies of scale from standardisation exceed the additional costs of introducing common standards.
- These economies of scale would be even larger if those standards were also used in the pre- and post-trade transparency area.

¹ ISO TC68/SC4 Working Group 8

C. What are the practical implications of the use of these standards for the financial industry?

19. The practical implications of the use of these standards are, as mentioned above, the necessary upgrading of current systems and procedures. Generally speaking, this will involve short-term costs, but **these will be set off by the resulting operational gains in the medium term.**

20. In practice, however, given the tight deadline imposed by MiFID, AFEI and M2F would like to stress that it is very unlikely that all systems and procedures will be ready to integrate these standards in time. We therefore call for a smooth process within feasible deadlines rather than for a "big bang" approach.

D. Do you have comment on individual standards?

21. AFEI and M2F would like to add some comments on some of the standards chosen by CESR.

(a) BIC code (ISO 9362)

22. Within the MiFID context, the use of the BIC code is not problem-free. Indeed, the BIC code is an address only. It may be that a single entity has many BICs or, conversely, that one BIC relates to many entities. In its current form, then, the BIC does not make it possible to distinguish clearly between a branch or a location of the same entity. In addition, the BIC covers neither collective investment vehicles registered as legal entities nor corporates. With respect to the latter aspect, AFEI and M2F understand that SWIFT as the registration authority for the BIC code intends to allocate a BIC code to collective investment vehicles and to corporates. Maintenance of the BIC code may be an issue worth keeping in mind when using it for reporting purposes. This issue should be clarified with SWIFT.

(b) Date and time format (ISO 8601)

23. AFEI and M2F believe that it would be easier to agree on a specific format within the standard. For instance, there should **be no choice between YYYYMMDD and YYYY-MM-DD**, even though the standard allows for a choice.

(c) CFI (ISO 10962)

24. It is worthwhile stressing that the CFI code is currently under revision with the aim of fine-tuning its structure, thus allowing an adequate classification of hybrid, structured products. This further level of granularity is welcomed.

AFEI and M2F anticipate that the CFI code will not be available in all countries by November 2007. In that case, AFEI and M2F suggest that the regulators should give investment firms time to transmit the CFI code.

(d) Currency code (ISO 4217)

25. It has to be verified whether new values need to be added, for instance to take account of minor currencies.

(e) MIC (ISO 10383)

26. In its current version, the MIC code does not offer the necessary granularity to identify the various trading sessions at one trading venue. AFEI and M2F understand that, as the registration authority for the MIC code, SWIFT is ready to allow an alphanumeric structure. This may alleviate the problem.



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