October 2, 2004

The Committee of European Securities Regulators
17 Place de la Bourse
75082 Paris Cedex 02
France

RE: CESR's Advice on Possible Implementing Measures of the Directive 2004/39/EC on Markets in Financial Instruments (Reference CESR/04-261b)

Dear Sirs:

The Financial Information Services Division (FISD) of the Software & Information Industry Association (SIIA) is pleased to provide these comments to CESR's Advice on Possible Implementing Measures of the Directive 2004/39/EC on Markets in Financial Instruments (CESR/04-26b).

FISD members applaud CESR on a balanced and insightful review of the issues as outlined in the consultation paper. The subject has been under active debate within all segments of our membership. While the diversity of our organization has made it difficult to achieve consensus on the core issues associated with the achievement of pre and post trade transparency, we would like to offer our perspective on the importance of data standards as a critical component of efficient information dissemination and an essential issue for CESR to consider as part of the implementation of the Directive.

The focus of our comments relates solely to Section 3 of the consultation paper dealing with market transparency and integrity and specifically on **question 13.7** (*should the identifier of a security be harmonized and if so, to what extent? What should be the applicable standard?*) and **question 13.9** (*should CESR initiate work, in collaboration with the industry and data publishers, to determine how best to ensure that post-trade transparency data be disseminated on a pan-European basis?)*

FISD Background

By way of introduction, FISD is a global trade organization that provides a balanced and neutral business forum for exchanges, market data vendors and financial institutions to address and resolve market data business and securities processing automation related issues. Participants are responsible for their own strategic and commercial interests within FISD. Our role is to act as a neutral facilitator of the discussion and manager of the consensus agenda that emerges as a result.

The organization is governed by a 27-member Executive Committee consisting of nine exchanges, nine vendors and nine user firms. A complete list of the FISD Executive Committee is available via the FISD web site (http://www.fisd.net/about/executive.asp).

In 2000, we were invited to be a part of the US Securities & Exchange Commission's Advisory Committee on Market Information looking into the issues associated with the role of information in the creation and maintenance of a transparent market as well as with the commercial issues associated market data dissemination.

We stand ready to brief CESR on our opinion of the results of the SEC's activity and any of the parallel issues emerging from that inquiry.

FISD is also an active participant in global standards initiatives. We are the founders and facilitators of the global Reference Data Coalition (REDAC). We sit on the Steering Committee of the UK-based Reference Data User Group. We serve as a direct liaison to ISO TC68/SC4 – the ISO body dealing with standards for the securities industry – and participate on ISO Working Group 8 (standards for business entity identification) and Working Group 11 (the creation of an industry standard market data model). FISD is a voting member of ANSI X9D (the US vote in ISO) and a member of the Standards & Protocols Working Group within the Securities Industry Association. We are also members of the ISIN User Group within ANNA, focused on issues related to unique instrument identification. Finally, FISD is the originator and owner of Market Data Definition Language (MDDL), the XML specification for reference data, corporate actions and pricing as well as fisdMessage, a standard distribution protocol for exchanging XML content in real time streaming environments.

A number of FISD members are likely to comment independently on the consultation document. This letter represents the majority view of the FISD Executive Committee, but should not be interpreted as the views of any single member.

The Reference Data Standards Connection

Reference data and standards have been in the spotlight of the financial information industry for the past few years. The discussion is being driven by the objectives of cost containment, risk mitigation and regulatory compliance. Financial institutions are working on improving operational efficiency and automating transactions processing because it makes business sense for them to do so. However, the challenge is made significantly more difficult due to the lack of standards in three core areas:

1. The lack of standards for precisely identifying and communicating financial instruments listed and traded in multiple markets.
2. The lack of a unified data model and standard glossary of terms, definitions and relationships for all data elements involved in the transactions lifecycle.
3. The existence of a number of proprietary data formats complicating the processes associated with the dissemination, mapping and integration of data.

When the financial industry refers to "reference data" they are focusing on the identification of the underlying products, accounts and parties involved in a transaction, including who's buying, who's selling, the parties involved in clearing, settlement and account management, the instrument being traded and corporate action information affecting the instrument. The common statistic is that about 40% of a trade record is composed of referential data. Reference data becomes very important because it is the underpinning of securities processing automation and a component of virtually every process within financial institutions. In the front office, reference data is used for sales, research, trading, and order management. In the middle office, it is used for collateral management and regulatory reporting. And in the back office it is a fundamental component for trade confirmation, settlement and asset management.

The core of the problem is that even though reference data is ubiquitous, it is decentralized with multiple systems (up to 25 separate processes/systems for each cross-border trade) containing client, counterparty and instrument data within a firm and managed, scrubbed and maintained on a mostly manual basis. Our experience suggests that inconsistent, incomplete and inaccurate reference data is the number one cause of internal STP failure (e.g. over 30% of all transaction breaks are caused by poor quality reference data, 59% of instructions need some form of repair, 10% result in mismatches and 15% fail to settle on time).

From our perspective, there is a clear link between reference data and automated trade processing. As global trading continues to grow and settlement cycles continue to shrink, firms will need accurate data that is compatible across multiple functions throughout the enterprise. Bad data causes exception processing, the enemy of automation. Securities need to be set up well before they trade and identifiers and descriptive data must be accurate. Consistent, accurate, timely and standardized reference data could be viewed as almost a prerequisite for the financial industry to meet the objectives of global transparency and securities processing automation.

The Pillars of Reference Data Standards

From the financial information industry perspective, the overall goal is to establish a common infrastructure for STP automation. That includes making sure that the standards are in place to facilitate global electronic commerce. For the purposes of this discussion, the relevant standards are those for unique and precise identification of financial instruments and those for ensuring that there is a common understanding of all market data terms, definitions and relationships.

Unique Instrument Identification (UII)

Most of the initial attention on reference data has been about the requirements for precision in instrument identification and the issues associated with numbering schemes and symbology. This one is fundamental. Financial institutions buy and sell a variety of instruments that can be issued, priced, traded and settled in many ways. As such, different types of identifiers are relevant at various levels and for a variety of functions including -- investment decisions, portfolio valuation and rebalancing, risk management decisions, trading decisions, pre-matching and matching functions, back office and settlement compatibility issues, corporate action processing, accounting challenges and regulatory reporting requirements.

The underlying problem is that the international standard (ISIN) alone is not sufficient for the automation requirements of STP. And while ISIN is a unique issue identifier, it is not always a unique security identifier because one ISIN can be shared among offerings in multiple locations. The most critical data element for unique identification is the official place of listing (OPOL). OPOL identifies the primary and secondary markets where the security is listed and is needed to differentiate the security in the case of multiple listings. A market issuance in multiple locations will be subject to different settlement, pricing, tax/corporate event treatment and allocation of national numbers.

UII Status

The issues related to unique instrument identification have been under active global debate for the past three years. The good news is that the industry has finally coalesced around both the importance of precise instrument identification and the criteria for uniqueness (see white paper). The challenges now are both operational and commercial. On the operational side, the required level of uniqueness varies according to the user role in the transactions lifecycle. Participants performing various functions use different identifiers and there is a requirement to cross-reference identifiers between each party of the trade. Any delay in identifying the relevant instrument slows down the process and contributes to STP failure.

On the commercial side, multiple entities (including international standards maintenance agencies) are engaged in creating commercial products to address the UII requirement. The debate focuses on both the nature of the commercial terms as well as on the acceptability of the competing product offerings. FISD is part of an international coalition working on both the operational and commercial issues related to UII. We are available to brief CESR on the status of the discussions as well as the nature of the issues under debate at your request.

Data Model and Standard Vocabulary

Financial institutions spend a significant amount of time and money on data scrubbing and repair. The creation of a common data model and standard vocabulary is really about the establishment of common names, values and formats for all data elements involved in the transactions lifecycle from set-up and indications of interest to post-trade settlement and allocation. At the core of this issue are the problems financial institutions have interpreting, comparing, translating and integrating data delivered from multiple sources.

The lack of precision and transparency at the content level makes it very difficult to compare data across various vendors and even more difficult to compare data between counterparties. Data element precision and transparency is a prerequisite for reducing the miscommunication and misinformation errors related to trade processing.

One of the best illustrations of the challenge is the term “closing price.” Closing price could be the official closing price of an exchange (although not all exchanges publish an official closing price). It could be the last traded price. It could be a volume weighted price or a mid-point price or an indicative price. All of these prices are valid depending on the requirements of the specific application. The goal is to eliminate confusion and ambiguity between and among sources.

Standard Vocabulary Status

FISD believes that the development of a common market data model and standard vocabulary is at the core of every organization’s reference data strategy. It was the prime motivator behind the development of Market Data Definition Language (MDDL) – the XML standard for market data, and remains the top reference data priority among our members.

Again, the good news is that the global market data industry agrees with the importance of establishing common terms, definitions and relationships. The issue has also found its way into the ISO process with the creation of

ISO TC68/SC4 Working Group 11 (WG11). WG11 is charged with producing a data model that provides a single standard for describing a financial instrument throughout its lifecycle. ISO TC68/SC4/WG11 is very active and has made significant progress toward producing a single standard for describing financial instrument attributes. However, this is a complicated activity in that it includes defining all data elements required to build and maintain product master files as well as those needed to price financial instruments. In addition, adoption of the common vocabulary will require operational resources and a coordinated strategy among financial institutions. Adoption will likely be incremental and associated with technology migrations.

This is also where we make the connection between reference data and XML. And there are two sides of the XML story. On the one hand, as a common format, XML allows firms to integrate data from multiple data sources, feed numerous internal applications and add functionality without the need to translate and normalize the data. On the other hand, XML promotes a common understanding of the content of the data including how one data element relates to another. The objective is to have agreed terminology and transparent definitions so that people working with the data delivered by multiple sources can understand what they are working with and use it as appropriate for their specific application

FISD is donating the MDDL vocabulary to the ISO process and is working in cooperation with SWIFT, FIX and others to ensure the development of a complete data model for the financial industry. We are active members of TC68/SC4/WG11 and available to brief CESR on both the status of the discussion and the outlook for developing a common data model and standard vocabulary for the financial industry.

Conclusion

FISD is grateful for the opportunity to respond to CESR's consultation document on possible implementation measures of the Directive on Markets in Financial Instruments. FISD takes no position on the concepts related to obligations for best execution, rules for handling orders or the requirements for the display of limit orders. Our focus is on the on the importance of data standards as a critical component of efficient information dissemination.

The global financial industry has spent a significant amount of time debating and defining the standards requirements associated with building that infrastructure. The core activities have been defined and there is broad agreement on objectives. We believe CESR could be helpful in moving the development and adoption of these standards by setting broad target for the industry, monitoring the commercial/operational issues as they arise and encouraging the adoption of common standards.

FISD stands ready to provide CESR with more detail on our activities and on the issues outlined in this letter. Thank you again for the opportunity to respond. Please don't hesitate to contact us if we can be of additional service.

Sincerely,

Michael Atkin
Vice President and Director,
Financial Information Services Division
Software & Information Industry Association