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Mr. Carlo Comporti
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September 30th, 2009

**Classification and identification of OTC derivative instruments for the
purpose of the exchange of transaction reports amongst CESR
Members (CESR/09-618)**

Dear Mr. Comporti

In response to the above mentioned consultation, please find below BVI's¹
views on the subject at hand.

We are pleased to have the opportunity to comment on technical standards
to identify and classify OTC derivative instruments within the TREM system.

Going forward, we strongly recommend the use of the following ISO
standards for the identification and classification of OTC transactions in
TREM:

¹ BVI Bundesverband Investment und Asset Management e. V. represents the interest of the
German investment fund and asset management industry. Its 92 members manage currently
assets in excess of EUR 1.5 trillion both in mutual funds and mandates. For more information,
please visit www.bvi.de. BVI is registered under the number 1575282143-01 in the EU register
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1. Question 1 - Classification

CESR proposes to use alphabet letters (O, W, F, D, X, S, Z, K) to identify seven categories of “plain vanilla” OTC derivatives transactions and one additional “complex derivatives” transactions category which would catch all remaining transactions. The CESR classification would stop at the top level.

We recognize that the ISO 10962 standard (CFI – Classification of financial instruments) standard is currently under revision with the goal to cover new types of financial instruments. National numbering agencies such as WM Daten are currently classifying all financial instruments according to the CFI. We are confident that all National Numbering Agencies (NNAs) will quickly develop this service for other instruments if the use of CFI is required by TREM in the future. It will be a great benefit to the automation and standardisation of transaction reporting in general if CESR continues to mandate the use of the CFI standard within TREM and also with respect to derivatives. CESR should implement the planned eight alphabetical letters approach as an intermediate measure only.

The measure should be limited in term until the revised CFI is adopted by ISO. We respectfully suggest that CESR also engages in an active discussion with ISO to work towards fully harmonized top level definitions of derivatives transactions within TREM and the ISO CFI standard with the aim that CESR could apply directly a revised ISO 10962 standard in the future.

2. Question 2: Identification of OTC derivative instruments

CESR proposes to identify an OTC derivative instrument not by means of a single unique identifier but instead by seven additional mandatory data elements, including the ISIN of the ultimate underlying of the derivative instrument. However, TREM will accept the ISIN code of the OTC derivative instrument as optional information which can be provided by the investment firm on a voluntary basis. Since the use of ISIN is quasi mandatory under a number of European Directives, we strongly recommend using ISIN not only for securities identification in TREM but also as the preferred identifier for derivative instruments to be covered within TREM. Rules for options and futures as well as for warrants are already part of the ISO 6166 standard and could be extended to cover most of CESR top level classification categories mentioned in question 1. In order to cover explicitly additional



types of derivative instruments, the ISO 6166 standard is currently under revision: A public draft will be available shortly.

We cannot follow at all the reasoning that a requirement “to allocate ISIN codes to all OTC derivative instruments would be an extremely costly and burdensome request”. This statement is not supported by any facts. Firstly, ISIN allocation is in most cases free of charge. Secondly, ISIN allocation is not a huge technical problem, even in fast moving derivatives market with hundreds of new issues per day. For example, the German NNA allocates ISINs on a timely and high quality basis to hundreds of exchange traded derivatives on a daily basis. This includes the ISIN allocation in the largest retail derivatives market in the world, the so-called German “certificates” market with over 300,000 issues.

Finally, the Alternative Instrument Identifier (AII) is not at all a low cost alternative to the ISIN allocation. The AII is an attempt by the derivative exchanges to keep third party competition in the data delivery area away. In summary, we continue to believe that the use of other types of substitute identifiers should be avoided and at best be allowed as a transitional measure until all EU NNAs are equipped to assign ISINs to OTC transactions. We are confident that all NNAs will quickly develop this service if the use of ISINs is required by TREM.

We would like to elaborate further on this point. Inefficient, costly, and inflexible regulatory reporting of a large number of information items with each trade by the market participants should be avoided going forward.

In the future by way of ISIN based report requests regulators could get at any time all the information they need from one (or more) sell side employed information agents (as the case may be). If all OTC transactions are required to be identified e.g. by the ISIN Code (ISO6166), then the various sell-side employed transaction reporting agents (whether in house reporting department or a CCP, the DTCC data warehouse or specialized data vendors) are free to collect all information on each transaction at the level of granularity which is required by the business processes the particular agent is supporting.

All the information provided by the information agents can always be linked back together with a single identifier, i.e. the ISIN. For example, a CDR may collect data on the classification, description and contractual characteristics



of CDS OTC trades. A CCP collects individual transactional and risk management information to supplement CDR provided general reference data. A reference data supplier specialized in the area of derivative transactions may collect all information available on other types of contracts and trades.

In such a reporting system regulators could limit individual transaction reporting by market participants literally to the delivery of the ISIN of each trade made. At the same time regulators should require transaction participants to support OTC transaction data collection at sell side employed information sources all of which are required to use the same single ISIN identifier.

Regulators remain free to define at any time (and change) their transaction information requirements in the granularity they need to supervise the safety and soundness of the market. Regulators only need to communicate the description of their transaction information reporting requirements also to the information agents to enable these agents to collect on a timely basis all required data on each transaction.

We hope you will find our comments helpful. Our response can be made public.

With kind regards

BVI Bundesverband Investment und Asset Management e.V.

(signed)
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