

Committee of European Securities Regulators
Submitted via www.cesr.eu

Call for evidence on the technical standards to identify and classify OTC derivative instruments for TREM

London, February 27, 2009

Dear Sirs,

Markit welcomes the publication of CESR's Call for Evidence on the *Technical standards to identify and classify OTC derivative instruments for TREM* and we appreciate the opportunity to provide you with our views on this topic.

Markit is a financial information services company with over 1,100 employees in Europe, North America and Asia Pacific. More than 1,500 institutions use our independent services to value financial instruments, manage risk, improve operational efficiency and meet regulatory requirements. Markit has owned and operated RED, the Reference Entity Database providing market standard identifiers for credit derivatives, for many years and we have also gained extensive experience in creating identifiers for other asset classes such as commodities or loans. We therefore feel well placed to comment on issues related to identification and classification of OTC derivatives for the purpose of your Trade Reporting Mechanism TREM.

General comments

Creating identifiers for financial products is all the more complex the less standardised the products are. As flexibility is one of the main features that OTC derivatives offer to their users, this market by its very nature does not use fully standardised contracts. Even if the legal definition of terms might often be standardised based for example on ISDA definitions, the

economics of most contracts will differ in many different aspects. The majority of OTC contracts will for example use the at-the-money rate at the time of the trade to determine the future cash-flows of the trade, instead of standardised coupons, and the actual trade date as start date. It therefore proves to be quite challenging for most OTC contracts to summarise all contract details in one single identifier. Equally it will present a challenge for the reporting institutions to keep track of which trades fit within a certain standard, and which ones have been based on non-standard terms.

Identifiers for Credit Default Swaps

For Credit Default Swaps (CDS) and Leveraged Loan Credit Default Swaps (LCDS), RED codes have established themselves as the standard identifiers in the marketplace. Markit RED, which was acquired by Markit in 2003, has currently over 300 subscribers, including the vast majority of active CDS users as well as many market data vendors, technology providers and fund administrators that support CDS. Markit RED is regarded as the market standard identifier for CDS. It provides critical reference data to document and confirms credit derivative transactions in a reliable fashion, hereby reducing legal risk and increasing operational efficiency.

Markit RED for CDS

Markit RED legally verifies the relationship between reference entities and reference obligations which trade in the CDS market, known as pairs. The legal verification process is managed by a leading international law firm with extensive experience of derivative products. Reference entities and pairs are uniquely identified with alpha-numeric RED Codes. The 6-digit RED Entity and 9-digit RED Pair Codes facilitate straight-through processing and ensure accuracy in reference data mapping. The most liquid reference obligations are flagged as the market standard RED "preferred" and are widely used for electronic trading, matching and clearing. The Markit RED succession event repository provides automated corporate event alerts and allows users to access a historical database of corporate events to maintain portfolios over the life of a trade.

Markit RED has been fully integrated with most major inter-dealer brokers, as well as with the major trade execution, trade processing and market data platforms that operate in the CDS market. Subscribers integrate the RED data into their core systems and use it to clean existing data used in credit derivative applications. Furthermore, RED Codes facilitate straight through processing and ensure accuracy in reference data mapping, and are therefore widely used for electronic trading, matching and clearing.

Markit RED covers Entities, Pairs, Indices, as well as LCDS:

- Markit RED Entities holds critical information about the reference entities trading in the CDS market, such as long legal name and jurisdiction, each identified with a unique 6-character RED code. Since the creation of the RED database more than 10,000 6-digit entity codes have been created for corporate, financial and sovereign entities across more than 100 jurisdictions.

- Markit RED Pairs links frequently used reference obligation data with their corresponding reference entities, with each pair identified by a unique 9-character RED code. Since the creation of the RED database more than 4,800 9-digits RED codes have been created for the relevant obligations.
- Markit RED Indices provides a unique 9-character RED code for each on-the-run and off-the-run Markit CDS index, which links to legally verified index constituent reference data for these indices.
- Markit RED has been expanded to support the growth in trading CDS referencing Leveraged Loans (LCDS) by providing transparent reference data.

Participants in the CDS market will use RED codes to identify the reference entity and/or reference obligation on single CDS and LCDS contracts. They also use the RED index codes to specify the index name, annex date and effective date on CDS index trades.

Enhanced Identifiers for CDS

As single name CDS contract features have become increasingly standardised, including quarterly maturity dates, fixed coupons and effective dates, the existing RED database may be expanded to incorporate more of these standardised features in the identifiers. Markit is developing a proposal to provide this enhanced identifier, which would represent additional CDS contract terms in addition to the reference entity and reference obligation. A simple example is presented below.

A CDS contract is agreed with the following terms:

- Reference Entity = Axa
- Reference Obligation = ISIN XS0122028904
- Seniority = Subordinated
- Maturity Date = 20th June 2019

RED would represent this contract using the identifier FF667MAC0M19 where:

- Characters 1-6 ("FF667M") represent Axa as the Reference Entity
- Characters 7-9 ("AC0") represent the Reference Obligation with the ISIN XS0122028904. This bond would be denoted as subordinated in the RED database.
- Character 10 ("M") represents the Maturity Month of June based on standard exchange codes. The 20th is a standard maturity date and would therefore be understood by default.
- Characters 11-12 ("19") represent the Maturity Year

In addition to the above, the RED code could be expanded further to also include a description representing the Transaction Type (e.g. North American Corporate), Currency and other fields that are required according to ISDA definitions.

Markit Mapping Services

In addition to the Markit RED identifiers as described above, Markit provides a cross-asset class mapping service of these RED identifiers to commonly used identifiers in the cash Equities market, e.g. ISIN. If an issuer in the equities market is also traded as a reference entity in the CDS market, this will be captured through this mapping service, which will allow market participants to view both CDS and Equities market data on the same entity. As Markit progresses with identifiers for other asset classes, such as our recently announced initiative to offer standardised identifiers for entities transacting in the loan market, these identifiers will likely be included in this cross-asset class mapping service.

We think that an identifier project needs to be managed by a commercial organisation that understands the needs of the industry, has the support of all the relevant institutions and has relevant experience of identifiers. We have built and managed identification codes across all asset classes and can use our experience to manage any type of identifier projects. Going forward the major focus must be continual and timely maintenance of code and adoption across the industry.

We hope that our comments are of value to you. Please do not hesitate to contact us if you require further information or if you want to discuss any of our comments in more detail.

Kind regards,



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