Date:	13. November 2003
To:	**Iman Szeto (Chair of UII RDUG)** **Dan Kuhnel (Chair of ANNA Advisory Board)**
Copy:	Stuart McKinlay (Chair of ISITC Europe) Alan Plom (Chair of RDUG) Stephen Lomas (Chair of the Reference Data Subcommittee Germany) Anthony Kirby (RDUG Secretariat)
From:	Bernd Matschke, Member of the DE SSUG (German S.W.I.F.T. Securities User Group) on behalf of the DESSUG
Subject:	**Place of Listing – Considerations by the DESSUG – Draft V1.0 20031113**

Dear Iman,

dear Dan,

The DESSUG (German S.W.I.F.T. Securities User Group) is a group of industry experts with a variety of backgrounds re: institutions/-industry sectors, business and/or organisational and/or operative and/or IT-knowledge.
The DESSUG deals with all kinds of security related topics relevant for the German market, e.g. national and international standards and market practice.
The DESSUG is involved in the various industry standard bodies either directly through its own members or indirectly through other experts from various German institutions that interlink on those issues with the DESSUG.

The DESSUG had come into contact with the topic “place of listing” first through a respective requirement with a brief description for the S.W.I.F.T. Release 2005 in August 2003.
The brief description was enlarged at the table when discussing the requirements in La Hulpe at S.W.I.F.T. headquarters within the SMWG (Securities Maintenance Working Group) in September by the "Discussion paper: In Search of Unique Instrument Identifier (UII) from June 2003" by the RDUG and REDAC supported by the below mentioned examples provided by members of the group from the US and the UK. However, time at that particular meeting was too short to discuss at length various questions.
Additional information has been provided through the presentation to the German Reference Data Subcommittee in September.
The DESSUG and its expert sub-groups have meanwhile discussed those issues known to ourselves and found points that we think are worth to be considered in depth.
Therefore, please find below some considerations to support further discussions on the topic.

If there should be other issues than addressed in this draft due to oversight or not being brought forward explicitly in either the UII-paper or at the SMWG or Reference Data Subcommittee meeting, please advise.

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Please be aware that first of all, this letter will describe general topics to ensure proper understanding of various points and in order to build up on the considerations to follow. Also, this would allow much easier reconciliation should there have been any lack of understanding on the general points on our side.

Rationale for Draft letter

Reason for the issue of the attached draft paper are concerns to ensure

1. a solution that supports and further fosters STP by the means of agreed standards
2. a solution that works for all institutions around the globe
3. a solution that – ideally - does not require major changes/enhancements to systems and/or processes
4. a solution that is cost-effective, i.e. does not burden institutions with excessive costs that may be avoidable
5. a solution that is manageable in terms of implementation/harmonisation amongst the various industry members

by adding considerations that may or may not have been discussed in the process so far.

Issues to be solved (as far as known by DESSUG)

Based on the aforementioned sources, it is our understanding that there are the following main issues that need to be addressed to enable/support/enhance furthermore STP-processes across the process chain between all participants of the industry involved (please note that first of all the term 'traded at' is used; please see a further chapter re: 'traded at' compared to 'listed at'):

I.) Security Identification Numbers alone - as issued today - may not be sufficient to uniquely qualify a security according to the various needs of the various industry participants resp. departments of industry participants across the process chain for all various purposes (UII paper, page 1 re ISIN), notably:

- a.) Accounting
  For securities 'traded at' more than one exchange the securities number given may not be sufficient to properly qualify the security by exchange in the quality needed to pick the correct reference price for the accounting statement as the requirement is "to provide the 'reference price' of where the security was originally 'traded at' rather than where it is safekept" (info provided at SMWG).
- b.) Corporate Actions
  Two examples were given at the SMWG that cannot be handled automatically in today's environment
  1. Various Irish Stocks 'traded at' the Irish Stock Exchange as well as the London Stock Exchange pay dividends in EUR and GBP respectively depending on whether the stock was 'traded at' the Irish or London Stock Exchange (SMWG meeting).
  2. Various Indian stocks 'traded at' the Mumbai Stock Exchange as well as the New-Delhi Stock Exchange pay dividends as per different ex-dates depending on whether the stock was 'traded at' the Mumbai or the New-Delhi Stock Exchange (SMWG meeting).

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Current processes

Before analysing the impacts of various approaches to solve the above issues, it is to be ensured that the difference of processes in different markets/institutions is understood.

Both issues as detailed above are to be processed basedon balances among other criteria.

There are – at least – two quite different methods that are used with respect to "building" balances.

One concept is based on using respective local numbers that will lead to multiple AND independent ('segregated' by local numbers) balances for multi-listed securities that are – usually – not amalgamated into an overall balance by ISIN.

The other concept works on the concept of ISIN providing an aggregated balance across all markets that (probably dependent on the institution) can be split down in sub-balances by 'place of safekeeping'.

These different concepts are to be kept in mind when discussing solution options as the impact on one or another can vary greatly with regard to costs involved.

This is valid irrespecti ve whether looking at balances per trade date, per contractual or per actual settlement date; whether it is a custody or an accounting statement or whether the balance is used as basis for corporate actions.

Comparison of 'traded at' and 'listed at'

It is the understanding of the DESSUG that a security needs to be 'listed at' an exchange in order to be able to be 'traded at' that exchange.
As to our knowledge, the only deviations to this rule are ECNs and internal 'crossing'-systems of brokers/banks but those are no exchanges.

This view was put forward at the SMWG meeting and accepted by everybody present.

In view of that logic, the DESSUG has an issue with the "Figure 1 – World-wide Official Place of Listing and Trading of Daimler Chrysler AG Common Stock" in the UII-paper on page 2:
From our point of view, ALL 'place of trade' are also 'place of listing'.
To put it very poignantly, there are no 'place of listing' that are more "official" than others or the other way around there are no "unofficial" ' place of listing'.

This argument, as accepted by the SMWG led to the elimination of the term "official" in their solution recommendation.

Additional note on the UII-paper as of June 2003:
For Frankfurt ("Official Place of Listing") the exchange is defined as "DTB" with the MIC "XDTB". These define the EUREX which is a derivatives market.
The floor in Frankfurt would be "Floor" and "XFRA" respectively, for the automated market it would be "XETRA" and "XETR" respectively. It should be discussed which of those is the solution of choice.

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The DESSUG regards is as very odd, that the SEDOL for Daimler Chrysler in this example at “XLON” and “XVTX” is exactly the same as for the various German ‘place of trading’. Could you kindly provide some advice on that?

Question:
How would the concept of ‘Place of Listing’ per a specifically designated exchange in each given market work as put forward in the UII work for securities of smaller companies that may only be traded and listed at regional exchanges like Boston but not NYSE or Munich but not XETRA?

Considerations re: Accounting (please refer to above section “Issues to be solved”)

Example:
Client buys 10.000 shares of Daimler Chrysler AG at the NYSE.
Client buys 10.000 shares of Daimler Chrysler AG at the Tokyo Stock Exchange.
Client buys 10.000 shares of Daimler Chrysler AG in Frankfurt on XETRA.
After all the buy-transactions the client moves 5.000 shares bought at NYSE to Frankfurt and 5.000 shares bought at Tokyo Stock Exchange to Frankfurt, creating holdings:
5.000 in the US.
5.000 in Japan.
20.000 in Germany.

It is our understanding that currently everybody? works in its balances on the basic concept of ‘place of safekeeping’ irrespective of the above concepts by local number or by ISIN in order to enable proper settlement.

The requirement to be able to quote a “‘reference price’ of where the security was originally ‘traded at’ rather than where it is safekept” for accounting purposes based on the ‘place of listing’ (where originally traded) would effectively result in the requirement to ‘build’ an additional second balance by ‘place of listing’ or even ‘place of trade’ (see above re “Comparison of ‘traded at’ and ‘listed at’”).

Having to add a second balance by a different criteria and having to keep th ose in sync would only be able at tremendous costs for the industry.
This is valid not only for those institutions working by ISIN but also for those by local numbers - if their current handling is correctly understood by ourselves.

Based on the requirement as stated above that “is to provide the ‘reference price’ of where the security was originally ‘traded at’ rather than where it is safekept” the DESSUG has questions of understanding:

a. is this a completely new requirement that the ‘reference price’ is to be taken from the ‘place of listing’? If yes, it is believed that this will imply the same tremendous costs for everybody!
b. is this already a requirement that the ‘reference price’ is to be taken from the ‘place of listing’? In that case, we would like to learn how institutions that work by local number are currently dealing with the issue as per above example it is perceived that they would not be able to handle it properly:
    1. they would need to have already the ability to have two balances, one by ‘place of safekeeping’ (with respective local number) and another one by ‘place of listing’ (with respective local number) which was not yet heard of; and the

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question is then: why was the issue brought up as a problem if there is already a solution? And they would need in case of transfers to change one local code into another: how to instruct such by the client or in case of the cascade from global to local custodian as in a settlement instruction there can always only be one local code?

2. they would need to have th e ability to build sub-balances for local codes by 'place of safekeeping' which was not yet heard of; and the question is: if they are capable to do so why they then do not switch to keep balances by ISIN?
3. they are not able to handle it which brings up the question: why was the issue not brought up much earlier?

If options 1 or/and 2 do not apply, it is to be assumed that in case of moving of securities from one country to another 'the chain is broken' and it is not possible to provide the 'reference price' of the 'place of listing' anymore to the correct amount of securities at the respective 'place of safekeeping' in which case (3.) the same amount of costs would have to be faced by such institutions to 'build' up an additional balance.
Please advise!

Suggestions for options to be discussed:

A. Define the requirement for 'reference price' as by 'place of safekeeping'.
B. Define the requirement for 'reference price' as by the exchange providing the most liquidity in the 'home market' ('place of issuance'? = first two digits of the ISIN) and defining such exchanges (note: above question re: securities not traded/listed at the most liquid exchange to be discussed).
C. Define the requirement for 'reference price' as by a singular distinct 'home exchange'.

Option C. may be able to be achieved by attaching the relevant MIC -Code of the 'home exchange' as a 'key' to the respective static data from where it could be pulled in the process of creating the accounting statement, hence comparably low costs of implementation for everybody.
Options A. and B. would require the definition of respective tables that would need to be integrated into the process of creating the accounting statement, hence relatively low costs for everybody.

Options A. -C. would avoid major changes to creating and keeping balances and also avoid having to quote a new data element on each and every message throughout the lifecycle which consequently would enforce enabling to store this additional data element in all processes throughout all applications/databases, hence avoiding tremendous costs of change for virtually all current applications/interactions.

In any case, options A.-C. as well as 'Official Place of Listing' need to be discussed and agreed with all participants through the SMPG (Securities Market Practice Group) on a global level.
Depending on the option chosen, the result may need to be put forward to standards organisations like ANNA or/and ISO to register them appropriately.

There are more points – with added complexity - to be considered out of this:

a. given that all 'place of trade' at an exchange are also 'place of listing':
    1. if 'reference price' to be quoted by effectively 'place of trade' this would effectively mean to store and maintain ALL ' place of trade' worldwide and to be able to build balances on it. Efforts and costs would be tremendous.
    2. If 'reference price' to be quoted by a 'defined place in a market' which is not necessary equal to the actual 'place of trade' that would need to be carried throughout the lifecycle, the amount o f balance lines would be reduced however the logic would become more ecomplex. Again, efforts and costs would be tremendous.

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Would it actually be correct/fair to quote the price of NYSE if the original transaction was executed in Boston? Would such require an agreement between client and service provider in the SLA? What if the client disagrees? Are there already respective local market practices in place? Could those be extended to a global level?

b. still the question is to be discussed: how do trades at ECNs and internal crossing-systems of broker/banks fit into 'OPOL'-logic logic – e.g. in cases like a Spanish investor wants to buy Daimler-Chrysler AG and the order gets crossed by an internal crossing-system in Spain (assumes – for arguments sake - Daimler-Chrysler AG is not traded/listed anywhere in Spain)? Where is the 'reference price' to be taken from?
c. What about the information cascade between the global and local custodians? For the above example: let us assume the client sits in Spain, its global custodian in the UK and the client instructs to move the 20.000 shares safekept in Germany to the US. In such case the global custodian would need to instruct to its local custodian 3 'place of listing', one each for US, Japan and Germany with different amounts of shares. This is currently not possible in 1 S.W.I.F.T.-instruction. 2 options can be seen:
   1. the Global custodian sends 3 separate instructions (costs). Please mind that there are quite a number of criteria that an instruction depend upon in addition like 'place of settlement', currency etc.
   2. in order to only send 1 instruction, the respective S.W.I.F.T.-messages would need to be structurally adjusted to allow for 'sub-instructions'. This, however, would open Pandora's Box: In case of trying to cancel one of the three 'sub-instructions' or any kind of partial deliveries the whole messaging re: status advice, confirms of cancel resp. confirms of partial deliveries gets so complex that it is almost unmanageable to properly work out all potential impacts. The cost factor again: this would be excessive for each one institution let alone the industry – not to forget this could be N 'sub-instructions' within one instruction.

Considerations re: Corporate Actions (please refer to above section "Issues to be solved")

Example:
Client buys 10.000 shares of Irish stock ABC at the Irish Stock Exchange.
Client sells 5.000 shares of Irish stock ABC at the London Stock Exchange.
Holdings:
10.000 long position of ABC in SEDOL 123 in Ireland.
5.000 short position of ABC in SEDOL 456 in UK.

This requires to generate 2 MT564 Notice of execution. In order to be able to provide this automatically it is necessary to build holdings based on 'place of trade' or 'place of listing' which in this case is the same. Costs for creating such holdings see above.

Questions of understanding – please advise:
1. How does the service provider know whether he is allowed or not (after all, this is one security divided by two SEDOLs) to 'pair-off'/'net' the transactions respectively the holdings in case several days are in between the transactions instead of same-day-arbitrage?
2. How to instruct such by the client or in case of the cascade from global to local custodian as in a settlement instruction there can always only be one SEDOL?

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3. What about the impact on the currencies attached – re: settlement/cash balances, especially when 'pair-off'/'net' is after a few days and the exchange rate may have changed quite a bit?

Except for the exchange rate (3.) the same applies for the Indian case between Mumbai and New-Delhi analogous.

Suggestions for options to be discussed:

A. Assign two branch-BICs to CREST, one for UK and one for Ireland. This would enable to distinguish the 'place of safekeeping' for those using the ISIN-concept for their balances.
   It is assumed that those using the SEDOLs do not have that kind of problem. Please advise.

General remarks

What should be kept in mind with all discussions taking place is that multi-listed securities amount to less than 5% of all of the securities traded in this world. Therefore, the 95:5-rule should apply which is to find practicable solutions for the less than 5% without enforcing major changes onto the other 95% of securities and all processes involved as well which would not need such change.

One major problem appears to be the SEDOL in the UK. It seems worth noting in this respect that settlement at CREST is required in ISIN.
What is to be avoided is that the problem of one specific market creates costly changes for institutions around the globe.

Kindly review the draft paper and comment and advise.

Looking forward to your reply we remain

Yours sincerely

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