

EURO ENTRY: IMPLICATIONS FOR ISINs UPON REDENOMINATION OF STERLING DEBT INSTRUMENTS

RESPONSE TO CONSULTATION

1. Introduction

1.1 The DMO and CRESTCo jointly issued a consultation document (including a questionnaire) on 29 November 2002 seeking views on the desirability of changing ISIN numbers on the redenomination of sterling debt instruments into euros. The deadline for responses was 31 December 2002. The exercise was commissioned by the City Euro Group (CEG).

1.2 The focus of the DMO's interest in the consultation is predominantly related to gilts (although following de-materialisation of Treasury bills in summer 2003 the issue of ISINs on these instruments will also become a relevant consideration for the DMO). However, since gilts are an integral part of the securities held within CREST, some parallels with corporate bonds and other debt instruments may be drawn.

1.3 Nine responses were received from a total of seven different market participants.

Conclusion

1.4 The decision on whether to change ISINs on gilts on re-denomination rests with the DMO. The consultation was held to aid the decision making process. **As a result of the joint consultation exercise with CRESTCo the DMO has decided that ISINs on gilts should remain unchanged on redenomination.** The consultation showed that two respondents felt strongly that ISINs should be changed and a number were attracted by this option but not strongly enough to give a definite view, others felt ISINs should not be changed. Accordingly, the DMO and CRESTCo do not believe there are enough grounds to change ISINs. Not changing ISINs would be consistent with first-wave precedent, the views expressed by the International Paying Agents Association (IPAA) at the last CEG

meeting, and international guidelines issued by the Association of National Numbering Agencies (ANNA). It would also be in accord with the practical preference of the London Stock Exchange as the UK Numbering Authority.

Summary

2.1 On the central issue of whether ISINs should be changed or not, clear views were expressed by only four respondents, with two supporting keeping ISINs unchanged and two advising they be changed.

2.2 Other respondents were more equivocal saying they had no strong preference and that their systems could handle either option. One suggested that change “would appear to create minimum risk” another that either decision was acceptable providing that sufficient notice was given and that, whilst from an internal/client perspective they had no strong preference, a market perspective suggested change. Others said that there were (largely unspecified) advantages and disadvantages to either decision.

2.3 In general, most of the responses were fairly brief and contained a number of unspecific assertions of belief. Respondents’ attitudes to the particular questions sought depended largely on their perception of the impact of a change of ISINs on their internal systems. But respondents appeared to be confident that their systems could handle either option (providing the task was managed properly and adequate timing was available). Most also suggested that changing ISINs would either be more costly or cost the same as maintaining them. The most detailed response strongly opposed a change in ISINs on redenomination.

2.4 As noted in paragraph 29 of the consultation paper of 29 November the general presumption from the DMO is that ISINs should not change on redenomination, but we recognised that there were reasons for and against changing. That both can be accommodated technically is not in doubt and the consultation exercise has not provided us with a weight of argument (including on cost grounds) that would lead us to depart from the view that gilts ISINs should not change on redenomination.

2.5 See below for a summary of responses to the questionnaire.

Summary of responses to questionnaire

Fungibility

Q1 – In systems terms, do you regard redenomination of the nominal balance a significant change in the main characteristics of a stock?

Views were more or less evenly divided, but views were influenced by the ease with which redenomination could be processed through existing systems.

Simplicity/risk limitation

Q2 – On balance, do you feel that the risks are greater with retaining the same ISINs or allocating new ones?

Again views were divided with some unsupported assertions made of risks associated with both options.

Q3 – Briefly, what are the system implications for your firm of either option?

No fundamental problems identified with either option; some work was required for either but attitudes to change were influenced by the ease with which respective systems could be modified. Where a preference was for no change the example of first-wave countries was cited by some.

Q4 – What risk is there of experiencing reconciliation problems using either option?

Again some risks were cited for both options – either could cause some reconciliation problems if not properly managed. Some references were made to market/settlement/back office preferences for change, others mention first-wave precedent of not changing.

Continuity

Q5 – If ISINs changed would you need to link the old and new ISINs in your systems and, if so, would this raise any particular problems or concerns?

Half the respondents said there would need to be links, others not, but no problems were identified either way.

Q6 – How would changing the ISIN affect historical reporting for your firm, as described here?

Little or no significant impact was foreseen although one respondent thought this could depend on reporting requirements from the DMO; another suggested there could be problems if ISINs were not changed.

Cost efficiency

Q7 – What difficulties might arise from updating your static data in respect of either option?

Most respondents could not point to any specific examples but additional manual work was identified by a number of respondents. Those in favour of keeping ISINs the same identified additional work if ISINs were changed (and those in favour of change pointed to additional work if ISINs were unchanged).

Q8 – If ISINs were to change how long in advance would you need to know the details of the new ISINs?

Most said between 1-3 months. Others pointed to 1-week (in extremis but pointed to the risk of input errors on such a short timetable). One said 12 months.

Q9 – If applicable, what preference would your clients have and why?

Where an opinion was reported, all felt that clients would prefer to keep ISINs unchanged on simplicity/convenience grounds.

Q10 – How would new ISIN details be passed on to your customers/clients? Is this automated in any way?

Where a view was expressed, the presumption was that new details would be passed on electronically – mention was made of the DMO web site – and the possibility of a DMO mailshot.

Q11 – From your perspective, how do the costs compare for implementing each option?

Those recommending no change asserted costs would be higher if ISINs changed (and vice-versa). Some said there would be no difference.

Summary

Q12 – What is your preference – to change ISINs or not?

Clear views were expressed by only four respondents with two supporting keeping the same ISINs and two advising they be changed. Others were more equivocal, saying they had no strong preference and that their systems could handle either option. One suggested that change “would appear to create minimum risk” another that either decision was acceptable providing that sufficient notice was given. One respondent said that whilst from an internal/client perspective they had no strong preference, a market perspective might suggest change. Others asserted there were advantages and disadvantages associated with either decision.

Q13 –What are the main reasons, mentioned in this paper or otherwise, for you making your preference in your answer to Q12?

The reasons given for the preferences reflect the respondents’ individual perspectives, those who believed most strongly that ISINs should remain unchanged stressed the importance of continuity, lower disruption, less work, cost and risk of keeping the same ISINs. Those who supported change also said this option would cost less be less risky

and easier for reconciliation purposes. One respondent summed up the different perspectives between front and back offices – keeping ISINs unchanged would be less confusing for market participants but more risky for back offices, similarly change would be the less risky option for back offices but cause more confusion for market participants.

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