

## **Getting CFIs Right: Importance of data quality for firms and regulators**

*The use of Classification of Financial Instrument (CFI) codes has gained momentum since the increase in scope of MiFID II requiring the reporting of CFIs for OTC derivatives. Scrutiny from regulators has likewise increased with Competent Authorities frequently questioning users on their CFI data reporting. Regulators are keen to put their newfound reporting data to good use and utilise the collected information for analytical purposes, yet the key focus is to ensure that accurate data is submitted in order for them to do so. This consistency of data is not only important for regulators, but for firms that are becoming increasingly aware of the critical value of efficiently aggregating data for their own evaluation and positioning purposes.*

A mandatory field for transaction reporting, the CFI code is used to classify financial instruments. In order to satisfy regulatory reporting requirements, transaction reports need to be able to map their products to the International Organization for Standardization (ISO) 10962 CFI code. Furthermore, a CFI needs to be reported for all EMIR transaction reports, and under MiFID II, CFIs are required to be reported for OTC derivatives for the first time.

### **ISO 10962**

The first version of the ISO 10962 standard was published in 1997. Revisions were made to the original in 2001 and again in 2015, which is the standard currently used today. At the time of writing, a 2019 version with changes related to a minor revision of the OTC derivatives asset classes has just been approved, however, the comments are yet to be addressed and the implementation timeline is still to be discussed.

The CFI code itself is made up of 6 characters, each represented by a letter. The first character designates the category of asset class at the highest level (e.g. equity, collective investment vehicles, debt, entitlement, listed options, futures, swaps, referential instruments... etc.). The second character provides another level of granularity for the groupings within each asset class; for example in the debt category, this is broken down into bond, convertible bonds, bonds with warrants attached, medium-term notes ...etc. The last four attributes are deemed most significant for that particular type of instrument. At this lower level, classification of important attributes of each group are identified. For example, equities grouped into 'common/ordinary shares' have attributes to classify voting rights, ownership/transfer/sales restrictions, payment status and security form. Furthermore, when the CFI is combined with an International Securities Identification Number (ISIN), the user then holds the classifier and identifier of a specific financial instrument. This combination of information provides firms with the critical ability to aggregate all relevant data around that instrument thus providing transaction and risk transparency to aid safer and more efficient markets.

In relation to the ongoing revision of the ISO 10962 standard, there are two key aspects of the work being undertaken by ISO TC68 / SC8 / Working Group 1. This includes the transition of the hard copy of the standard to an electronic format, as well as creation of guidelines related to the establishment of a 'Maintenance Agency' for the ongoing development and evolution of the CFI. A number of ISO

standards require either a maintenance agency or registration authority to update or implement revisions. A maintenance agency is solely responsible to manage the standard on an ongoing basis as part of its evolution, as opposed to a Registration Authority (RA) which holds the responsibility of the adoption and implementation of the standard in question. It is important to note that whilst the Association of National Numbering Agencies (ANNA) is not the official registration authority of the ISO 10962 standard, it is stated in the standard that if an ISIN is assigned by a National Numbering Agency (NNA), the CFI assigned along with the ISIN will always be considered the official CFI. On this basis, NNAs have a formal responsibility to assign the CFI code alongside every ISIN issued.

### **Challenges with data quality**

CFI data has come under growing challenge from regulators of late with regards to the accuracy and completeness of the data contained in CFIs. These challenges around data integrity have mostly been because of jurisdictions applying CFIs on a non-consistent basis, either as a result of local regulatory rules or simply differing interpretations. In Germany, for example, it is legal practice to categorise any instrument with a maturity date under 12 months as a money market instrument, whereas in other jurisdictions the particular instruments of reference would be classified as a certificate or warrant. In other instances, discrepancies are typically due to CFIs being generated and reported by market participants themselves, such as trading platforms, and not the official CFI designated by the NNA, where the corresponding ISIN code has been issued. In such cases, conflicts occur; for example, when exchanges report a variance with the group or category attributes that in turn may contradict the segment the security is listed/traded on. This scenario would be vastly improved if all market participants used the official CFI generated by the relevant NNA when assigning the ISIN. The official CFI is freely available from the relevant NNA or using ANNA's Free Lookup Service. A subscription service is also available via the ANNA Service Bureau which enables access to a central repository all official ISIN, CFI and FISN codes consolidated on a daily basis from the data provided by each NNA.

### **The role of ANNA**

ANNA is working closely with Competent Authorities where differing CFIs are identified and which have been receipted by regulators. ANNA is also working hard with NNAs in response to industry queries in an effort to ensure an appropriate level of guidance, consistency and interpretation, to be applied across all numbering agencies as much as practically possible. This includes participating in a recently created ISO 'Advisory Group on Classification of Financial Instruments' (ISO/TC 068/SC 08/AG 01) responsible for developing recommendations and to support users in the use of ISO 10962 standard, ad interim of an ISO maintenance agency being established. For example, with regard to the differing local legislative rules between various jurisdictions, ANNA has been liaising with regulators and industry to ensure requirements are met and CFI is applied on a consistent basis. The ISO Advisory Group has also addressed queries related to changes between versions of the standard and provided guidance on CFI assignment for options on commodities, to name a couple of examples.

### **Exposed: Quality data analytics**

The importance of data quality does not only concern the issue of regulatory reporting, but also the invaluable opportunity it provides firms to help measure exposure. It is important to be able to consistently and uniformly classify and aggregate data. Aggregation at this level means firms are better

able to understand their exposure based on specific asset classes, as well as at a more granular level within those classes. For example, instruments can be easily sorted according to certain maturity terms, seniority or underlying asset type. This ability to sort through exposures is crucial in calculating capital requirements.

CFIs provide regulators with the ability to conduct transparency calculations to ensure safe and fair financial markets. ESMA can use the information obtained from CFI-derived transparency calculations in a consistent fashion which is key for data analytics, thus providing regulators with the means to call back data in order to build strong use cases.

### **Consistency in evolution**

Because of the recently increased usage of CFIs, industry participants are beginning to see potential benefits in how the codes can be effectively used for purposes of data aggregation, thereby gaining a better understanding of their positioning and exposure across various asset classes. As market participants are becoming more familiar with using CFIs, they naturally want to be assured that they are in receipt of the official CFI. They also want to learn how to make best use of the standard, and where to go for more information. The proposal of an ISO Maintenance Agency is welcomed as this would effectuate reiterations of the standard on a much more regular basis, as well as establish a forum whose purpose would be to oversee changes, rather than waiting for a systematic review of the standard every few years. Not only is ANNA committed to ensuring the alignment of all NNA's so that data quality of CFIs improves, and coverage of CFIs continues to increase, the Association is steadfast in its objective to contribute to the evolution of the standard, ensuring consistency of use and interpretation, enabling CFI to remain fit for purpose for industry in the foreseeable future.