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LSE to offer Sedol codes for all futures and options *17 Oct 2008*

The London Stock Exchange will launch in late November the first global, uniform system of identifier codes for exchange-traded derivatives.

LSE is expanding its well-established Sedol codes, which already cover some 2.5m equities, bonds and derivatives, to include the great majority of the world's listed futures and options. About 1m new codes will go live when the project is launched.

Derivatives users worldwide will be able to use the seven digit codes to identify all exchange-traded contracts using the same numbering system as they may use for equities and bonds.

The exchange's partner in the project is FOW TRADEdata, the sister company of Futures and Options Intelligence and FOW magazine.

"The feedback from our customers is that they want Sedol to cover as many asset classes as possible," said Mark Husler, head of business development for data and software at the LSE in London. "So our strategy is aligned to that - ensuring our coverage is as wide as possible and that the quality is as high as possible, and choosing key specialist partners to help us."

Since relaunching Sedol in 2004 as a seven digit alphanumeric code, instead of seven numerical digits, LSE has spent the past four years growing the database to include all listed equities globally. It now also has what Husler calls "a very good coverage of bonds" and a lot of OTC securities, as well as some exchange-traded derivatives.

The database has grown both through systematic research by LSE, adding data feeds from exchanges and other sources, and through customers asking LSE to assign Sedol codes to specific instruments.

In the past year LSE has turned its attention to exchange-traded derivatives. "This was a gap in our database that was only partly filled previously through our connectivity to exchanges like Liffe," said Husler. "We subscribe to a number of different data feeds and take data direct from some exchanges. When it came to exchange-traded derivatives we felt we needed to partner with a specialist firm with a proven track record in this area."

FOW TRADEdata maintains a database of over 38,000 suites of futures and options contracts on 80 exchanges, and provides data feeds on contract terms, fees and volumes to industry customers.

FOW's database has now been mapped into the LSE's so that contracts to which it had already assigned Sedol codes are matched.

Once the new codes are launched, LSE will receive information from many of the exchanges through FOW TRADEdata, while from a few it will receive information direct.

One issue that may be challenging for LSE is the sheer number of derivative contracts. Each maturity date will require a different code, because LSE wants the coding to be as granular as possible.

This means that, for example, on the London Metal Exchange, every one of the daily prompt dates for each metal will require a new code.

Numbers to grow exponentially

The overall quantity of codes is therefore likely to grow rapidly. The seven digit alphanumeric code gives LSE space for about 660m codes - but that headroom could quickly be eaten into as derivatives start to roll over.

"Our intention is not to reuse numbers but in future it could be necessary to churn them," Husler said.

From a processing point of view, Husler is confident LSE can handle the increased volume. Sedol is run on the LSE's Unavista platform, a reconciliation system hosted by the LSE that customers can rent to perform tasks like trade matching and cash and stock reconciliation. "It is built for processing large volumes at low latency," said Husler.

He would not reveal how much the project had cost or how much revenue it was expected to generate, but emphasised that the LSE's aim was not so much to gain an extra revenue stream as to "ensure Sedol codes are available for all global securities".

The LSE has about 1,500 customers licensed to use Sedol. There is a much smaller number of distributor licences, for data providers such as Reuters and Bloomberg, and most of the licensed users take the information through them.

Customers will not need a new licence agreement, but those which take the information direct from the LSE, including the data providers and some end users, will have to pay more to actually pick up the extra data.

Sedol grew out of a domestic system for UK equities, established by the LSE 30 years ago. As London grew into a centre of international finance, the system's coverage grew to encompass many foreign securities.

As such, Sedol is parallel to Cusip, the equivalent system of nine digit codes in the US, which is administered by the Cusip Service Bureau. However, Cusip uses separate coding systems for its non-domestic codes.

All the world's numbering authorities, acting through the Association of National Numbering Authorities, have also formed the universal system of Isin codes, which are an International Standards Organisation standard.

Domestic Sedol and Cusip codes are slotted into the 12 digit Isin codes. However, these do not cover exchange-traded derivatives, and Sedol codes, unlike Isins, indicate where a security is traded, as well as what the security is.

Under the EU Markets in Financial Instruments Directive (Mifid) there are now Alternative Instrument Identifier (AII) codes for debt and equity derivatives traded on exchanges that do not already use Isin codes.

But these do not apply to commodity, forex or interest rate derivatives.

"The customer feedback was that there was a gap," said Husler.

As for the LSE's next project for expanding Sedol? In 2009, it will be tackling OTC derivatives and structured products. No rest for the wicked.

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