

FIA, FIA TECH, & CME GROUP TAG 1031 READINESS Q&A SESSION

NOVEMBER 2019



Introductions and Agenda

Session hosted by:

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Agenda:

- Overview of FIA Execution Source Code, aka Tag 1031
- Q&A

FIA Execution Source Code - Purpose

- Historically no information passed from Executing Broker through Exchange/CCP to Clearing Broker on how a trade was executed
- Executing Brokers providing many options for trade execution – and growing
- Leads to problems in brokerage settlement
- In December 2018 the FIA and FIA Tech published Guidelines for the Simplified FIA Execution Source Code Schema.
- Schema provides futures Industry participants downstream of execution with a set of codes that can be added to order messages to indicate how trades are executed
- Facilitates efficient brokerage settlement
- On Nov. 17, the CME Group will implement a mandatory requirement to use these codes
 - Provided in FIX Tag 1031 in new order message

Links to Guidelines:

- Summary version:
<https://fia.org/sites/default/files/FIA%20Revised%20Guidelines%20for%20Execution%20Source%20Code%20V1.4.2%20Summary%20-%20final.pdf>
- Detailed version:
<https://fia.org/sites/default/files/FIA%20Revised%20Guidelines%20for%20Execution%20Source%20Code%20V1.4.2%20-%20final.pdf>

Schema Values

Table of Execution Source Code values and execution flow they represent:

Value	Description	High/Low Touch	Mandatory?
W	Desk	High	Yes
Y	Electronic (Default)	Low	Yes
C	Vendor-provided Platform billed by Executing Broker	Low	Optional for complex model
G	Sponsored Access via Exchange API or FIX provided by Executing Broker	Low	Optional for complex model
H	Premium Algorithmic Trading Provider billed by Executing Broker	Low	Optional for complex model
D	Other, including Other-provided Screen	Low	Optional, used with discretion

High Touch vs Low Touch

- The guidelines distinguish between “high-touch” and “low-touch” execution.
- “High touch” execution indicates that a person at the executing broker has been involved in the execution chain. These orders typically incur a higher brokerage rate.
- “Low-touch” indicates that there has been no human interaction with the order by the executing broker. Typically, a lower brokerage rate is used for these orders.
- This distinction leads to a simple usage model based on whether orders are executed “high-touch” via the executing broker’s desk (“W”) or “low-touch” via self-directed electronic executions (“Y”). The schema includes a further three different sub-categories of low-touch to create a more complex model.
- The simplified schema has been designed for electronic trading, reflecting that most trading now occurs via electronic matching engines as opposed to open outcry venues. Where trading still occurs manually through an open outcry medium, it is assumed that there is alternative information provided on the trade that makes the Execution Source Code redundant for the brokerage calculation.
- The guidelines also do not address off-exchange trades such as block trades or exchange for related position (EFRP) trades. Again, it is assumed that there is alternative information provided on such trades for brokerage calculation.

Complex Model

- **Value = “C” (Vendor-provided Platform, billed by Executing Broker)**
- The client electronically transmits the order via an independent software vendor’s trading system provided to the client by the executing broker. Use of a third-party vendor system typically incurs an additional cost which is billed to the executing broker and may be recovered through a higher brokerage rate compared to use of the executing broker’s own systems.
- **Value = “G” (Sponsored Access via Exchange API or FIX, provided by Executing Broker)**
- The client electronically transmits the order directly to exchange via sponsored access using the executing broker’s membership of the exchange.
- This value may be used to differentiate brokerage rates between client order flow placed via the executing broker’s order routing systems (commonly known as “direct market access”, or DMA) and client order flow placed through its sponsored access agreement with the executing broker.

Complex Model

- **Value = “H” (Premium Algorithmic Trading Provider, billed by Executing Broker)**
- The client uses a premium algorithmic trading provider’s system that works the order based on the client’s selected parameters, and which subsequently electronically transmits “child” orders to the exchange matching engine for execution. These child orders can be submitted via 1) ISV infrastructure interfacing directly with the exchange, 2) the executing broker’s FIX or API connectivity, 3) sponsored access under the executing broker’s exchange membership, or 4) direct access under the client’s own exchange membership. Child orders generated by the premium algorithmic trading provider would be sent to the exchange using this value (“H”) regardless of how the order may have been originally placed with the algorithmic trading provider.
- **Value = “D” (Other, including Other-Provided Screen)**
- This value allows for scenarios not covered by values “W”, “Y”, “C”, “G” or “H”. FIA suggests that usage of this value should be discretionary and only implemented after careful consideration of its impact to all parties involved, and any legal mechanisms employed to agree the brokerage rate between parties.

Implementation Decision Tree

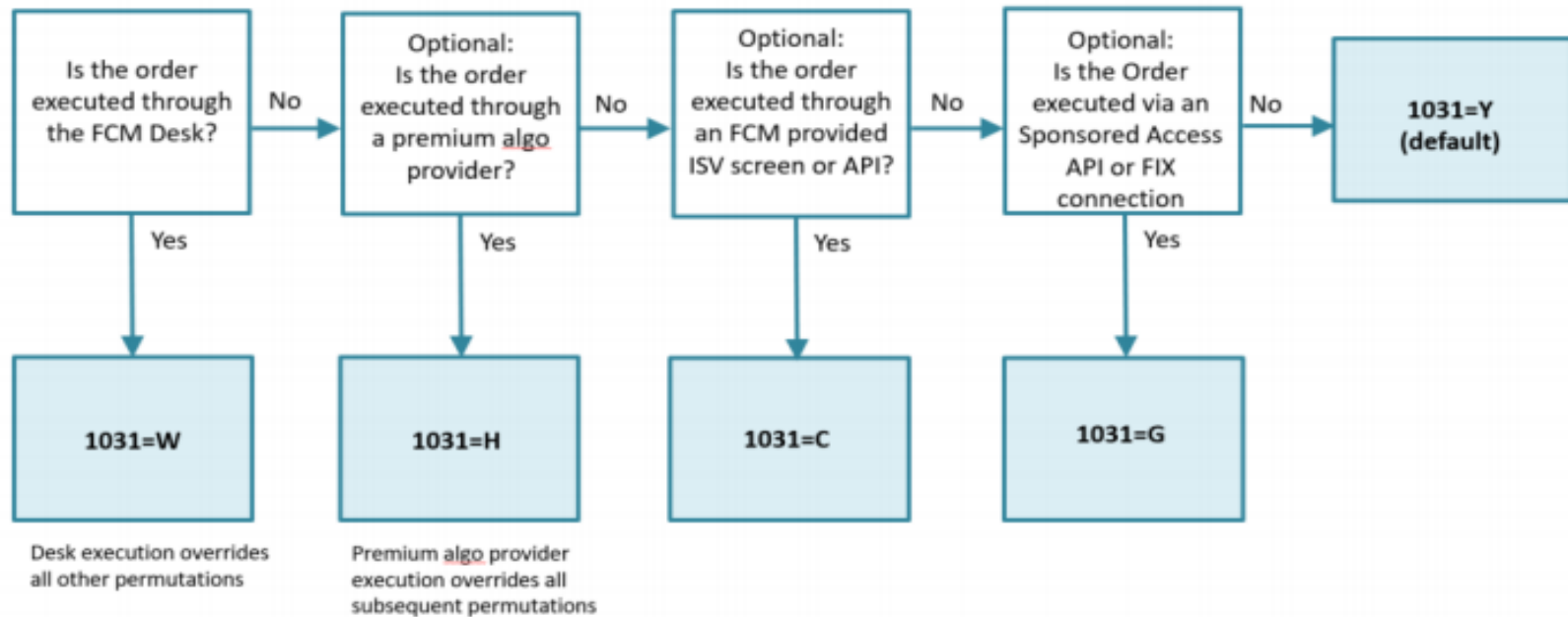


FIGURE1. EXECUTION SOURCE CODE DETERMINATION

Diagram – Simple Model

Appendix A.1. Suggested Population of Execution Source Code – Simple Model

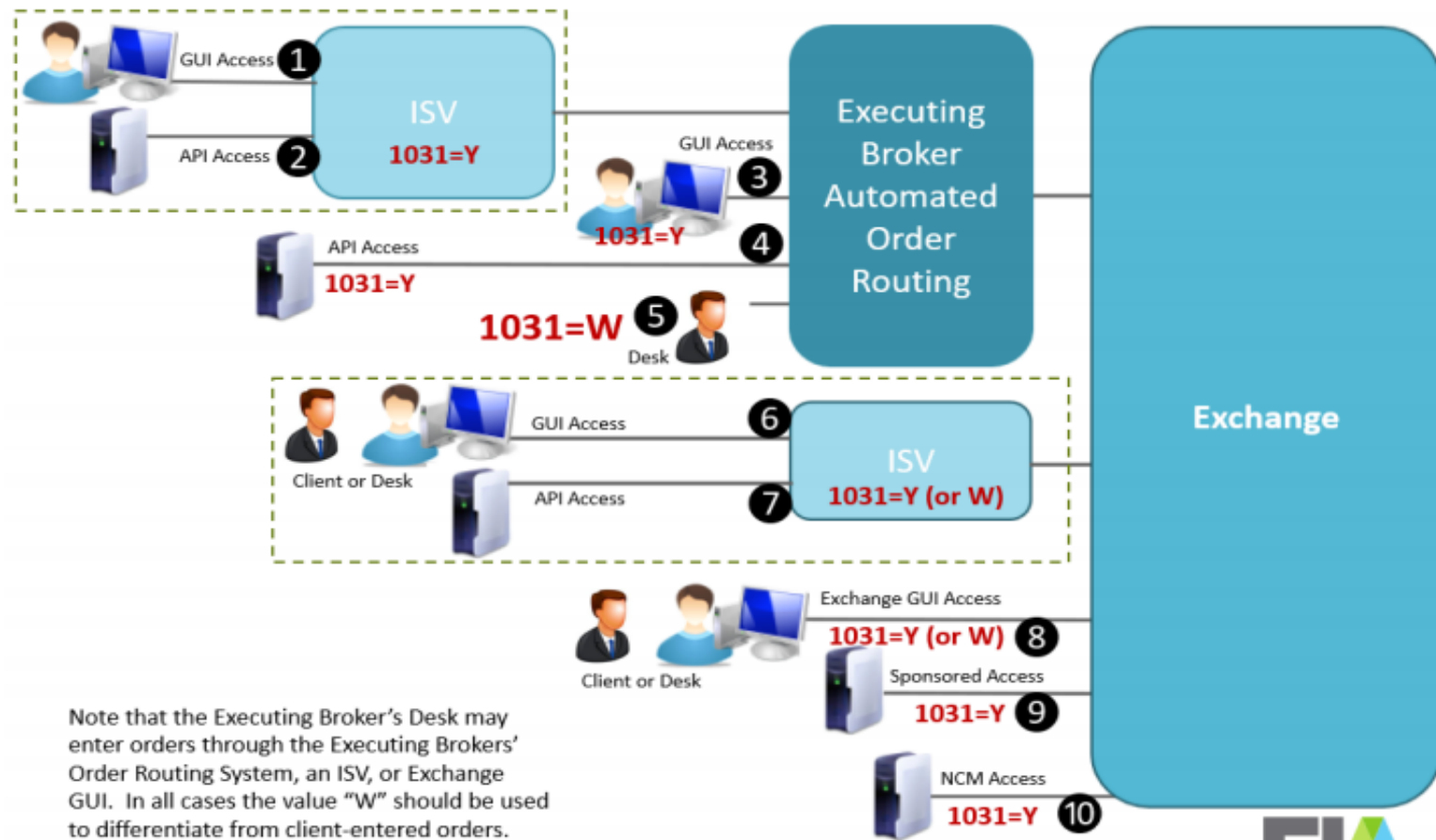
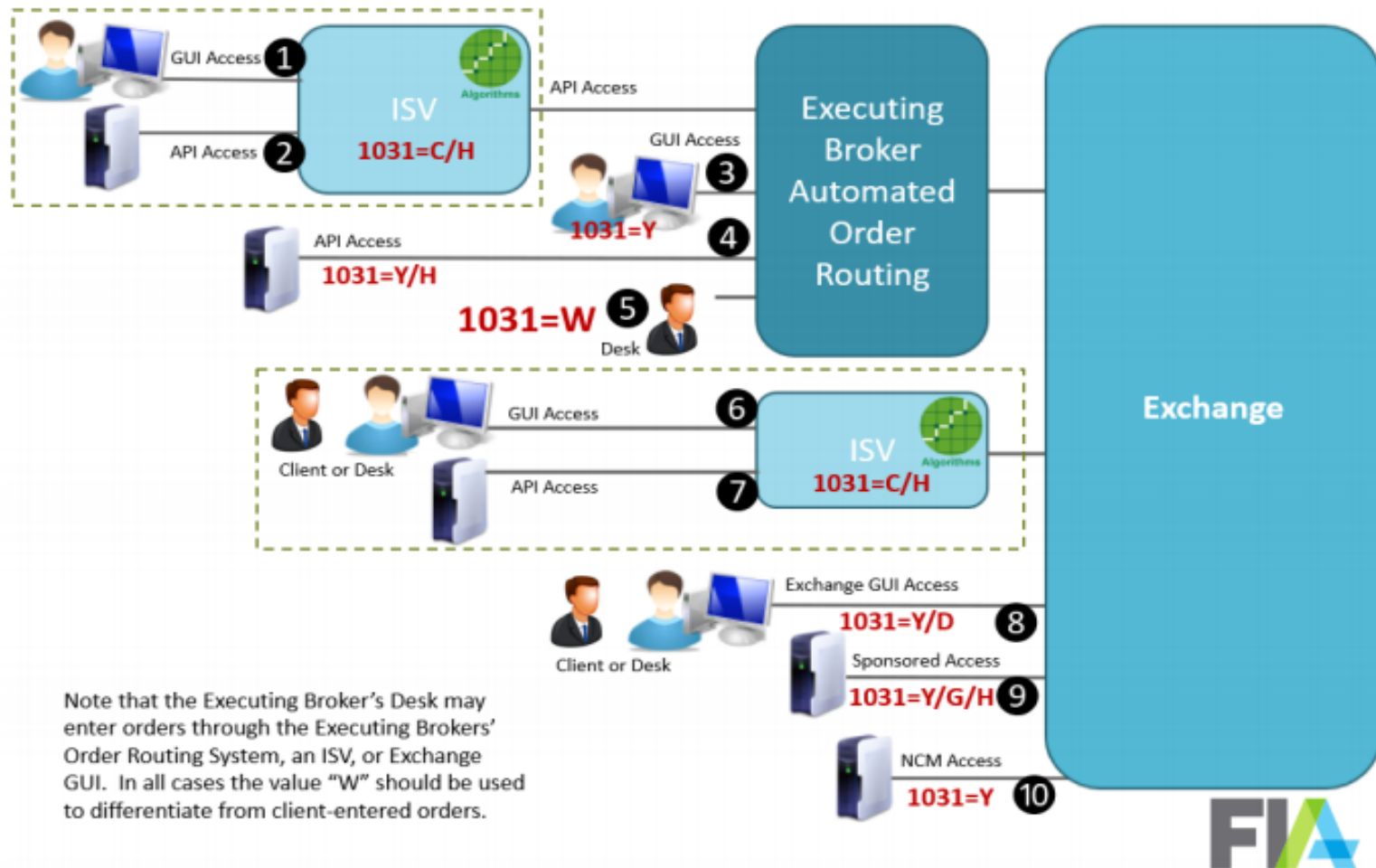


Diagram – Complex Model

Appendix A.2. Suggested Population of Execution Source Code – Complex Model



Note that the Executing Broker's Desk may enter orders through the Executing Brokers' Order Routing System, an ISV, or Exchange GUI. In all cases the value "W" should be used to differentiate from client-entered orders.

Q&A Session