Derivatives Market Institute for Standards (DMIST): Annual Progress Report

March 15, 2022
Blueprint for Standards: Annual Progress Report

In November 2021, FIA published a Blueprint for Standards calling on industry participants to improve the efficiency of the trading and clearing process for exchange-traded derivatives. To advance this initiative, FIA has been working with a taskforce comprised of experts from Barclays, Cargill, Eurex, Intercontinental Exchange, J.P. Morgan, Macquarie Futures, Russell Investments, Société Générale and other leading clearing firms, clearinghouses, and institutional investors.

Today, FIA is providing an inaugural annual progress report on the three recommendations contained in the Blueprint.

### Blueprint Recommendations

1. **Form a Markets Standards Body**
2. **Establish an Industry Call to Action Roadmap**
3. **Develop a Collaborative & Meaningful Agenda**

### Progress Report

1. **Launch DMIST**
2. **Develop Governance and Approval Process for Standards**
3. **Workflow Analysis and Industry Working Groups on Specific Standards Topics**
Form a Market Standards Body – DMIST

The Derivatives Market Institute for STandards will be designed to encourage cross-industry engagement leading to widespread adoption of standards in exchange traded and cleared derivatives.

DMIST Mission and Values

- Plan to launch DMIST in Q2 2022 with participation from a broad representation of the industry that is committed to implementing these standards
- DMIST will focus on developing standards around behaviours, workflows & processes and plan to coordinate with other related standards bodies
- These standards aim to improve efficiency and resilience in the clearing ecosystem and intend to be technology and vendor agnostic
- Governance will be consensus driven and will consist of two levels of participation:
  - Sponsor Board consisting of a broad array of market participants that consider and approve standards; and
  - Ambassadors consisting of subject matter experts, including technology vendors, that help identify, develop, and submit standards to the Sponsor Board for consideration

Commitment

- Senior sponsorship
- Funding and SME resources
- Incentivisation

Governance

- Manageable executive committee
- Industry-wide representation

Accountability

- Transparency
- Measurement
- Reliability
# Standards Governance and Approval Process

## DMIST Construct

<table>
<thead>
<tr>
<th>Rights</th>
<th>Sponsor Board</th>
<th>Ambassador</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Oversee process for developing standards</td>
<td>• Submit proposals for developing standards to Sponsor Board</td>
<td>• Submit proposals for developing standards to Sponsor Board</td>
<td></td>
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<tr>
<td>• Submit proposals for developing standards</td>
<td>• Respond to consultations on standards</td>
<td>• Respond to consultations on standards</td>
<td></td>
</tr>
<tr>
<td>• Appoint Ambassadors to standards working groups</td>
<td>• Subject matter experts that form working groups for developing and vetting standards for approval</td>
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<tr>
<td>• Approve industry standards</td>
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## Entry Criteria

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<th>Sponsor Board</th>
<th>Ambassador</th>
<th>Public</th>
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<tr>
<td>• Open to: Exchanges/CCPs, client/end-users, executing brokers, clearing brokers</td>
<td>• Any industry participant can participate, including vendors, for a nominal fee</td>
<td>• Any member of the public can provide comments on published standards at no cost</td>
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<tr>
<td>• Must agree to commit financial resources and people to the standard development process</td>
<td>• Sponsor Board members can appoint Ambassadors from their firms at no additional cost</td>
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<tr>
<td>• Accountability for implementing applicable standards</td>
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### How a proposal becomes a standard

1. **Proposed standards received from** Sponsor Board, Ambassadors, or public

2. **Sponsor Board** determines whether the initial proposal **meets required criteria**
   - a) Contains submission requirements
   - b) Addresses a topic that is in scope
   - c) Is a topic that would significantly benefit the industry to standardize

3. DMIST forms Ambassador SME working groups to **vet the proposed standards** and endorse the standards for Sponsor Board consideration

4. **Sponsor Board reviews** and posts proposed standards for public comment

5. **Industry comments** on proposed standards

6. **Ambassador SME working groups review comments**, revise and update proposed standards accordingly

7. **Sponsor Board votes to approve** the standards and they are published

8. **DMIST monitors** progress via metrics/benchmarking
To identify areas in need of standardization, FIA worked with market participants to define the full end-to-end process for the trading and clearing lifecycle. 28 interviews have resulted in 72 workflow amendments and 5 different scenario versions.

The futures ecosystem is complex with many transfers of data and challenges, including:

- Structured and unstructured data transfers
- Mix of manual and automated processes
- Incorrectly translated, overwritten, or dropped data
- Non-timely delivery and processing of instructions
- Inconsistent adoption and processing methodology for average pricing
- Reliance on resource intensive reconciliations
Participants noted multiple pain points in processing futures business in a timely and accurate manner. The most commonly noted areas of pain by participants are highlighted below (note, these are not exhaustive).

**Highlighted Pain Areas**

1. **Allocation and Give-Up Processing**
   - Instructions commonly late in day
   - Inconsistent message format and content
   - Different CCP closing times/tight clearing windows
   - Limited trade date reconciliation between participants
   - Trade date +1 processing is extremely manual

2. **Average Pricing**
   - Average pricing not possible on all exchanges
   - Inconsistent use of average pricing processing methodologies by exchanges
   - Off-exchange average pricing causes complex and manual work

3. **Static Data**
   - Limited standardised product and reference symbology exists
   - Multiple sources of trade data exist

4. **Reconciliations**
   - Duplicity and multiple touchpoints leads to reliance on many resource intensive and manual reconciliations to resolve issues
Data Driven Focus

CCP data and KPIs captured by participants can identify areas of concern and help drive the case for standards.

FCM KPIs

FCMs were asked to identify the key metrics they monitor to create a standard scorecard in order to help facilitate conversations and derive a common data set to benchmark issues.

While not yet agreed and signed off by the group, draft data points (below) that FCMs focus on indicate 2 key priorities:

- Receipt of instructions in a timely manner
- Processing those instructions in a timely manner

<table>
<thead>
<tr>
<th>FCM - Data Points</th>
<th>Volume</th>
<th>%</th>
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<tbody>
<tr>
<td>Total Volume (trades, contracts TBC)</td>
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<tr>
<td>Volume processed on Trade Date</td>
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<tr>
<td>Full Service - processing pending</td>
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<td></td>
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<tr>
<td>Executing broker - Give out pending</td>
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<tr>
<td>Clearing Broker - Acceptance pending</td>
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CCP Data

Continue to work with CCPs to gather data related to give-up activity to benchmark:

- Timeliness of instructions
- Trades accepted by brokers
**Initial Proposed Standards: “T is the Key”**

**RIGHT TRADE to the RIGHT ACCOUNT at the RIGHT TIME**

**Initial Standards for Consideration**

Having analysed the Front-to-Back Workflow, pain points, and industry data, the first proposed standards that DMIST will consider will ultimately advance the industry towards real-time processing on trade date. This will be an incremental process.

**Initial Underlying Standards for Allocation and Give-Ups**

We recommend a review of the below proposed standards related to incremental improvement in timing of allocation and give-ups:

- **Client**: Allocation/give-up instructions should be sent to brokers by Clients no later than 30 minutes post fill being confirmed by the exchange

- **Executing Broker**: Confirmation of processing allocation/give-up instructions by Executing Brokers should be sent within 30 minutes of receipt

- **Clearing Broker**: Confirmation of processing give-up instructions by Clearing Brokers should be sent within 30 minutes of receipt

- **CCP**: Consider standardisation of cut-off times between end of trading and clearing, including extension of clearing windows

**Next Steps**

- **Interested parties** can sign up to:
  - Become an Ambassador
  - Join the Sponsor Board

- **Working groups** will be established so that Ambassadors can:
  - Draft and submit standards for proposal to the Sponsor Board
  - Review, refine and endorse standards for approval by the Sponsor Board

- A pipeline of further focus will be defined for groups to consider, including but not limited to:
  - Average pricing processing standards
  - Format and content of allocation and give-up messaging
  - Common data taxonomies

**RIGHT TRADE to the RIGHT ACCOUNT at the RIGHT TIME**
Get Involved

Make a proposal
Become an Ambassador
Join the Sponsor Board
Comment on proposal

Everyone, through working groups/committees
Standard development
Standard approval
Everyone can comment

Questions?
Reach out to:
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Natalie Tynan – ntynan@fia.org

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