



# DMIST

DERIVATIVES MARKET  
INSTITUTE FOR STANDARDS

## Consultation Paper: Standard Regarding Timeliness of Trade Give-Up and Allocation

November 11, 2022

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## 1. EXECUTIVE SUMMARY

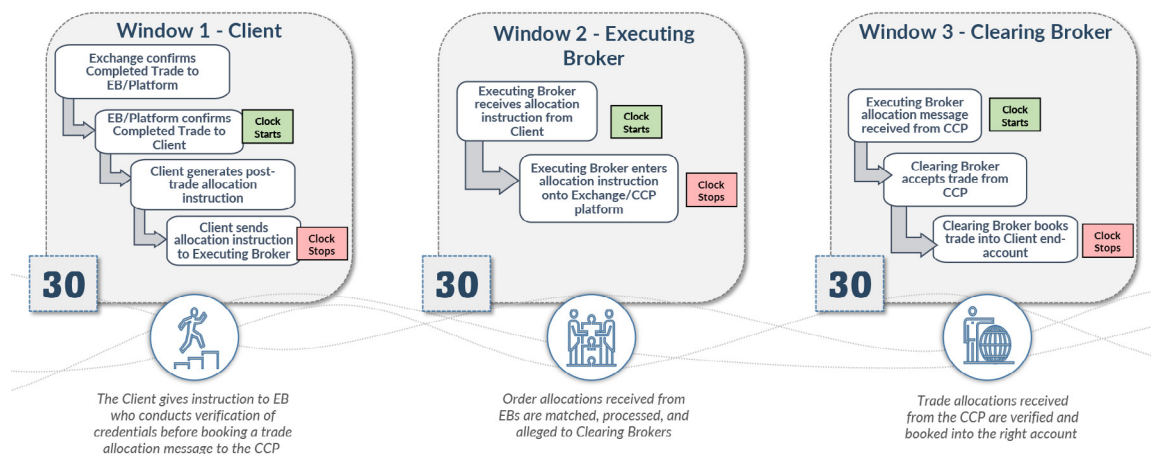
The Derivatives Market Institute for Standards (“DMIST”)<sup>1</sup> was formed as an outgrowth of industry conversations following high volume and volatility in February and March 2020, at the onset of the COVID-19 pandemic. DMIST’s ultimate goal is to encourage widespread adoption of standards in the exchange traded derivatives industry that will help make markets more efficient, resilient, and competitive for all.

Today, DMIST—with approval from its Sponsor Board—releases its first public consultation on a proposed standard on the timeliness of trade give-up and allocation. DMIST standards are developed through an eight-step process that encourages cross-industry engagement and public consultation and feedback. The release of this public consultation is the fifth step in the process. All eight steps of the DMIST standards development process are outlined in Appendix A.

The industry’s ultimate goal as it relates to timeliness of trade give-up and allocation is to encourage straight through processing and ensure that the right trade is in the right place at the right time on trade date. This consultation is a first step towards achieving that goal; incremental improvement will increase the likelihood of success.

### Proposed Standard: 30/30/30

DMIST is proposing that each Client, Executing Broker, and Clearing Broker should submit and process their give-up and allocation messages within 30 minutes of the relevant event that triggers their action. The “clock” for each 30-minute period is proposed to run as follows:



<sup>1</sup> Background information on DMIST and its standard-setting process is available in [Appendix A](#).

## Consultation Paper: Standard Regarding Timeliness of Trade Give-Up and Allocation

In an initial survey of DMIST participants, 71% agreed that 30 minutes is the correct time period for the initial phase of standardization. Furthermore, 76% agreed that the time period should be the same for Client, Executing Broker, and Clearing Broker.

Following on from the initial survey, DMIST Sponsor Board and Ambassador Groups performed additional detailed analysis and reviewed metrics gathered from DMIST participants to provide evidence that the initial proposed time period is both ambitious and achievable.

The aim of this standard is to provide a foundation for greater transparency on trade workflow between all market participants and reduce end-of-day bottlenecks and manual processing.

Further details on this proposed standard are provided below. DMIST welcomes comments on this proposed standard from any member of the public. Instructions for submitting comments are also provided below.

Simultaneous with the submission of public comments, DMIST is announcing the formation of several working groups—made up of DMIST participants—to challenge, analyze and refine the proposed standard. The following specific working groups are envisioned:

- (1) average pricing;
- (2) 30 minute Client window;
- (3) 30 minute Executing Broker window;
- (4) 30 minute Clearing Broker window; and
- (5) cross-functionality across all windows.

These working groups will be open to any DMIST participant. If you are interested in becoming a DMIST participant, more information is available [here](#).

### 2. PROPOSED STANDARD

To identify areas in need of standardization, a taskforce that served as the predecessor to DMIST worked to document and analyze the full front-to-back process for exchange traded derivatives. One of the most noted pain areas arising out of that analysis was the allocation and give-up process.

The work of the taskforce was taken forward by the DMIST Sponsor Board and Ambassador Groups via a detailed analysis regarding the difficulties that impact the timeliness of trade give-up and allocation.

These difficulties are driven by the core complexities of the allocation and give-up process, combined with the inherent dependencies that market participants have with each other to process give-up trades. These include the fact that:

- (1) The allocation and give-up process depends on a series of sequential actions that must be coordinated between relevant market participants to process them from end-to-end; and
- (2) Give-up trades are reliant on various industry participants and vendors to support operational processes and/or technology in order to integrate the workflows of market participants.

Over time, the industry has experienced challenges in getting the RIGHT TRADE into the RIGHT ACCOUNT at the RIGHT TIME on trade date, largely driven by specific issues around the timeliness of allocating give-up trades.

Specifically, DMIST has identified three activities within the allocation and give-up process that have the most negative impact on timeliness:

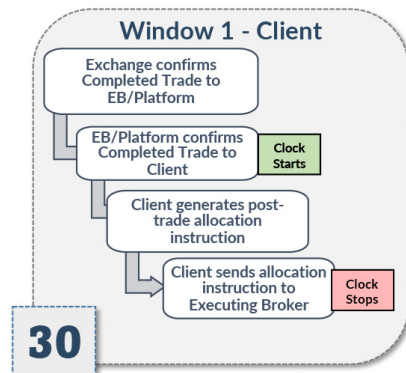
- Client not providing allocation instructions to the Executing Broker in a timely manner;
- Executing Broker not alleging allocated trades to Clearing Broker in a timely manner; and
- Clearing Broker not accepting allocations in a timely manner with corresponding timely booking into Client end account.

Therefore, the standard being proposed aligns with and addresses each of the activities required of the Client, Executing Broker, and Clearing Broker to improve the timeliness of processing allocations and give-ups throughout the trading day.

The proposed standard has been broken down into three distinctive activity windows based on which market participant owns and controls specific decisions in the trade flow. This approach was developed and agreed upon by DMIST members after group discussions, feedback and analysis of the daily process flows around allocating and giving up trades.

**It is proposed that the three sets of market participants mentioned above should submit and process their give-up and allocation messages within 30 minutes of the relevant event that triggers their action.**

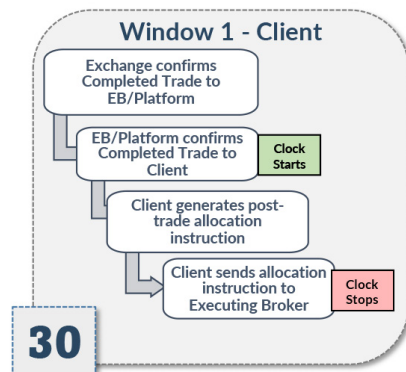
These windows have defined start and stop points that break down the proposed actions within each window:



**Standard:** Client should provide allocation instructions to Executing Broker within 30 minutes of a Completed Trade

**Clock Starts:** Executing Broker confirms Completed Trade to Client

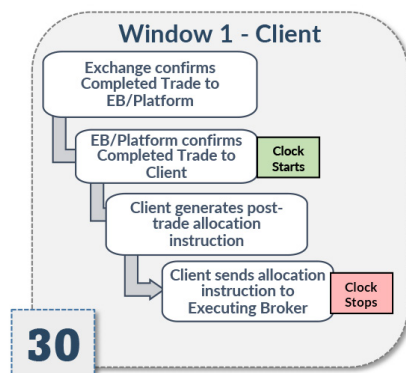
**Clock Stops:** Allocation instructions sent to Executing Broker by Client



**Standard:** Executing Broker should process Client allocation instructions and allege resulting give-ups within 30 minutes

**Clock Starts When:** Allocation instructions received from Client by Executing Broker

**Clock Stops When:** Executing Broker initiates give-up trade allocations to Clearing Broker(s) via CCPs



**Standard:** Allocations are accepted by Clearing Broker and booked into Client end account within 30 minutes of such instructions being received from CCP

**Clock Starts When:** Clearing Broker receives alleged trades from CCP

**Clock Stops When:** Allocations are accepted by Clearing Broker and booked into Client end account

### **Further Analysis:**

DMIST participants acknowledge that despite the detailed discussions and analysis undertaken to date to define the proposed standard, certain aspects of the 30-minute windows may require further definition and clarity. These include, but are not limited to, the following:

- the definition of a Completed Trade;
- sending allocations simultaneously to the Executing Broker and Clearing Broker;
- average pricing and grouping of multiple Completed Trades;
- manual allocations;
- clearing windows where the time frame for processing is less than 90 minutes in total post exchange/trading window closure (particularly for trades completed on the close);
- carte blanche acceptance; and
- unexpected external factors that negatively impact timing for Client, Executing Broker, or Clearing Broker.

### **Working Groups Announced:**

DMIST is announcing the formation of subject matter working groups that will begin to analyze these specific areas that require further definition and clarity simultaneous with the submission of public comments.

The following specific working groups are envisioned:

- (1) average pricing;
- (2) 30 minute Client window;
- (3) 30 minute Executing Broker window;
- (4) 30 minute Clearing Broker window; and
- (5) cross-functionality across all windows.

With this proposed standard, DMIST seeks to improve the timing of the submission of allocation and give-up messages between parties across the full end-to-end transaction lifecycle. We believe that this will reduce end-of-day bottlenecks, reduce manual processing, and improve the overall customer experience. It also has the potential to increase the trade volume capacity of firms across the industry.

### **Data Driven:**

This proposed standard has been driven by survey data and metrics. In an initial survey of DMIST participants, 71% agreed that 30 minutes is the correct time period for the initial phase of standardization. Furthermore, 76% agreed that the time period should be the same for Client, Executing Broker, and Clearing Broker. Additional metrics gathered from Exchanges/CCPs, Clearing Brokers, and Executing Brokers to date support the proposed standard as both ambitious and achievable.

The proposed standard is a meaningful starting point from which firms can improve. For example, current metrics indicate that during the Clearing Broker window, approximately three quarters of give-up trades are currently processed within the 30-minute time period. This shows there is room for improvement and yet, the 30-minute goal is attainable. Further efforts around this standard will also allow those participants already achieving these time goals for all or most trades to help bring wider efficiency to the market as a whole.



### 3. ONGOING METRICS

Ongoing metrics will be one of the key drivers in delivering the success of this standard. It is critical that firms assess, via metrics and internal review, where they currently stand and how they are improving. Metrics that are created and reviewed consistently will allow the industry to continually monitor progress against the standard, identify shortcomings and recommend strategic improvements regarding the speed of give-up, acceptance, and allocation.

In order to develop metrics, the industry needs standard points of reference for concise comparisons. For this proposed standard, we have identified standard reference points that align with the start/stop actions for each of the 30-minute windows. These should be measured based on the number of trades (transactions) and volume (lots). This consultation is also looking for feedback on the difficulty of measuring these time periods for the various market participants and what impediments may need to be overcome.

Window 1 - Client	Window 2 - Executing Broker	Window 3 - Clearing Broker
<p><b>Start:</b> Time of Order Completion confirmed back to Client</p> <p><b>Stop:</b> Time of trade allocation from Client to Executing Broker</p>	<p><b>Start:</b> Executing Broker receives allocation instruction from Client</p> <p><b>Stop:</b> Executing Broker allocates/actions allocation request onto Exchange/CCP platform</p>	<p><b>Start:</b> Clearing Broker receives allocation confirmation from Exchange/CCP</p> <p><b>Stop:</b> Clearing Broker accepts trade from CCP and allocates into Client end account</p>

### 4. CONSULTATION QUESTIONS

In addition to and to supplement the ongoing working group efforts, DMIST welcomes additional feedback about any aspect of this proposed standard from all areas of the industry. Specifically, DMIST invites feedback from the public on the following non-exhaustive list of questions:

- What impediments exist for Clients, Executing Brokers, and Clearing Brokers, respectively, to meet the proposed standard?
  1. Are there certain transaction types of particular concern?
  2. Are there certain assets classes of particular concern?
  3. Will delivery and roll periods prove particularly challenging? If so, why?
  
- What metrics would assist Clients, Executing Brokers, and Clearing Brokers, respectively, in analyzing where they currently stand in regard to the proposed standard? What difficulties exist in collecting these metrics?
  
- What additional standards would be helpful to support or facilitate this proposed standard?

### 5. SUBMITTING A COMMENT

Comments are due on or before January 17, 2023. Any member of the public may submit a comment by sending a PDF, Word document or substantive email to [info@dmist-standards.org](mailto:info@dmist-standards.org). All comments will be made publicly available [here](#) following submission.

DMIST will not review comments for personal, confidential, proprietary, sensitive, or otherwise protected information before making such comments publicly available. By submitting a comment to DMIST, the submitting party consents to such public posting. DMIST reserves the right, without obligation, to review, redact, and/or remove any comment that it considers to be inappropriate, offensive, or improper, in its sole discretion. By submitting a comment to DMIST the submitting party agrees to abide by and be bound by the Terms of Submission, available [here](#), which will constitute a binding legal agreement between you and DMIST.

## 6. QUESTIONS/FURTHER INFORMATION

If you have questions about this proposed standard, wish to know more about DMIST, or have an interest in joining the initiative, further details can be found [here](#). You may also contact Don Byron at [dbyron@dmist-standards.org](mailto:dbyron@dmist-standards.org) or Natalie Tynan at [ntyman@dmist-standards.org](mailto:ntyman@dmist-standards.org) for more information.

## 7. GLOSSARY

Capitalized terms used in this document are defined as follows:

**“Client”** – An individual or organization, typically an end-user, asset manager, proprietary trading firm or similar party, who initiates an order to buy or sell a product in the exchange traded market.

**“Executing Broker”** – An individual or organization that accepts an order from a Client to buy or sell a product in the exchange traded market, but does not clear the Completed Trade resulting from such order.

**“Clearing Broker”** – An individual or organization that accepts a Completed Trade from a Client or an Executing Broker (on behalf of a Client) and clears such Completed Trade with the CCP.

**“Completed Trade”** – an order to buy or sell a product in the exchange traded market that has resulted in: (1) a complete fill of the full quantity as originally placed; (2) a partial fill of the quantity as originally placed, with the remaining quantity cancelled; or (3) a complete fill of the quantity as later amended by Client.

### APPENDIX A

#### DMIST OVERVIEW

DMIST was recently formed as an outgrowth of industry conversations following high volume and volatility in February and March 2020, at the onset of the COVID-19 pandemic. DMIST's ultimate goal is to encourage widespread adoption of standards in the exchange traded derivatives industry that will help make markets more efficient, resilient, and competitive for all.

There are two levels of participation in DMIST: (1) the Sponsor Board members who consider and approve standards; and (2) the Ambassador level members, including technology vendors, who are subject matter experts and who help identify, develop, and calibrate standards for the Sponsor Board's approval.

For more information on participating in DMIST, please visit our [website](#).

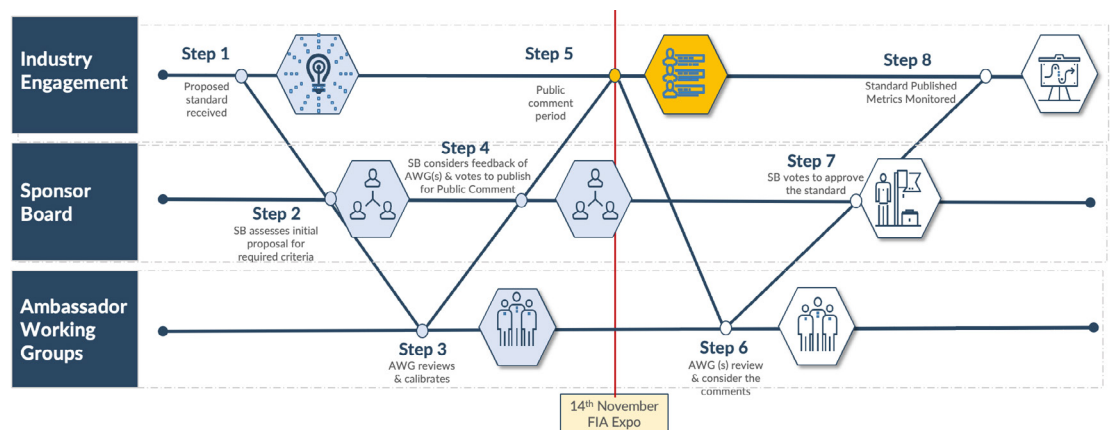
For more information regarding the history and development of DMIST, please see [Modernising the Listed Derivatives Workflow: A Blueprint for Change \(November 2021\)](#) and [Derivatives Market Institute for Standards \(DMIST\): Annual Progress Report \(March 2022\)](#).

#### DMIST STANDARD PROCESS

The process that DMIST follows for a proposal to become a standard is:

- **Step One:** Proposed standard is received from any member of the public (including, but not limited to, Sponsor Board Members or Ambassadors).
- **Step Two:** Sponsor Board determines whether the initial proposal meets certain required criteria (e.g., the submission contains sufficient requisite information, the proposed standard addresses a topic that is considered in scope for DMIST's consideration, the proposed standard relates to a topic that would significantly benefit the industry to standardize).
- **Step Three:** DMIST forms Ambassador Working Group(s) for review and consideration of the proposed standard.
- **Step Four:** Sponsor Board meets to consider the feedback of the Ambassador Working Group(s) and votes to publish proposed standard for public comment.
- **Step Five:** DMIST issues the proposed standard for public comment.

- **Step Six:** At the end of the comment period, the Ambassador Working Group(s) used to vet the standard as initially proposed will meet to review and consider the comments.
- **Step Seven:** Sponsor Board votes to approve the standard based upon feedback and recommendations from the Ambassador Working Group(s). Once approved, the standard is considered final and is published.
- **Step Eight:** The success of DMIST requires commitment to transparency with regards to adoption and implementation of standards. Each final, approved standard will specify transparency expectations for Sponsor Board Members regarding whether or not they have chosen to adopt or implement such standard. Each final approved standard must also specify metrics, to be measured on an ongoing basis, related to implementation, adoption, usage, and/or effectiveness.



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DERIVATIVES MARKET  
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2001 K Street, NW  
Suite 725, North Tower  
Washington, DC 20006

Visit our [website](#).