

Global Technical Committee

Best Practices For Bonds

FIX TRADING
COMMUNITY™
INDUSTRY-DRIVEN • INDEPENDENT • NEUTRAL

Pre-Trade Indications





Background

- Initiative Background**

- In 2014 a group of Sell-Side and Buy-Side institutions agreed to work together in order to define a standard for the transmission of Indications – Axes, Inventories and Runs.
- The **Best Practices For Bonds** document was updated with the introduction of the following section
 - Volume 2 : Section 9 : Pre-Trade Indications
- Reviewed/approved by the Global Fixed Income Subcommittee (Nov 2014)
- Recommended changes to the FIX Specification have been reviewed by the GTC (Dec 2014)
 - New components, tags and enumerations are now available (and included in the Best Practices For Bonds document)
 - In the process of being incorporated in the FIX Specification
- The best practices are documented as eight workflows

Scenario	Description	Message
IND1	Dealer Sends an Axe or Inventory to a Customer	IOI
IND2	Dealer Sends a Run to a Customer	QUOTE
IND3	Dealer Replaces an Axe or Inventory	IOI
IND4	Dealer Cancels an Axe or Inventory	IOI
IND5	Dealer Replaces a Run	QUOTE
IND6	Dealer Cancels a Run	QUOTE
IND7	Dealer Sends an Axe or Inventory to a Customer, Axe or Inventory Rejected	IOI
IND8	Dealer Sends a Run to a Customer, Run Rejected	QUOTE



Update Summary

- **Pre-Trade Indication Details**

- An Indication allows the Dealer to communicate to the Customer an interest to buy and / or sell a particular instrument.
- There are different types of pre-trade indication:
 - **Axe** *One sided message that indicates a genuine intent to trade*
 - **Inventory** *One sided message based on an inventory position that indicates a genuine intent to trade*
 - **Run** *Two sided message that provides pricing information to the market*
- Indications are recommended to be sent as either an IOI (35=6) message or a Quote (35=S)
 - Using IOIQualifier (104) or QuoteQualifier (695) to define the types of indication

CommonIndication Type	IOIQualifier (104)	QuoteQualifier (695)
Axe	E = Axe F = Axe on Bid G = Axe on Offer	F = Axe on Bid G = Axe on Offer
Inventory	S = Inventory or Portfolio Shown	
Run		R = Ready To Trade

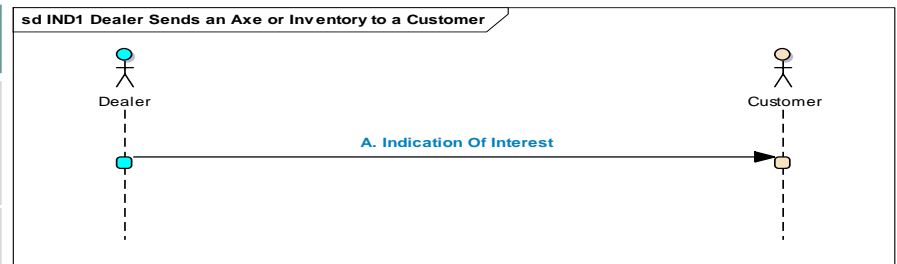
- The message can contain a Price, Yield and/or Benchmark Spread
 - New two sided fields added to Quote (35=S)
 - BidSpread
 - OfferSpread
- The message can contain one or more Relative Value Measurements (RVMs) such as ASW Spread, Z Spread etc.
- The Sell-Side can include a specific Desk or User (using Routing Group) to show someone with a particular interest in the message



An Example Workflow

- **IND1 : Dealer Sends an Axe or Inventory to a Customer**
 - The Indication of Interest message (35=6) is to be used for one-sided Indications.
 - The type of Indication is denoted by the IOIQualifier (104):

CommonIndication Type	IOIQualifier (104)
Axe	E = Axe F = Axe on Bid G = Axe on Offer
Inventory	S = Inventory or Portfolio Shown



- The main attributes include:

Model FIX 5.0				
(A) Dealer sends IOI	Dealer	→	<p>6 – IOI IOIID(23)= ❶ IOITransType(28)=New(N) Instrument <required> Side(54) <required> Price(44) <Axe Indication price> IOIQty(27) <Axe Indication size> NoIOIQualifiers(199)=1 -> IOIQualifier(104)= Axe(E) / Axe on Bid(F) / Axe on Offer (G) / Inventory or Portfolio Shown (S)</p>	Customer



New Components, Tags and Enumerations

- **Relative Value Group : Added to IOI (35=6) and Quote (35=S)**
 - Relative Value Type (2530) : Indicates the type of relative value measurement being specified.
 - ASW Spread
 - OIS Spread
 - Z Spread
 - Discount Margin
 - I Spread
 - OA Spread
 - G Spread
 - CDS Basis
 - CDS Interpolated Basis
 - Relative Value (2531) : The valuation of an instrument relative to a base measurement specified in RelativeValueType
 - Relative Value Side (2532) : Side of the relative value is applicable for..
 - Bid
 - Mid
 - Offer
- **Routing Group : Added to Quote (35=S)**
 - Routing Type (216) : Indicates the type of Routing ID
 - 5 = Target Person
 - 6 = Block Person
- **IOI Qualifier (104) and Quote Qualifier (695)**
 - S = **Inventory** or Portfolio Shown
- **Two Sided Benchmark Spread on Quote (35=S)**
 - BidSpread (2533)
 - OfferSpread (2534)