FIF/FPL Regulatory Reporting WG

Market Center Transparency

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Document History

Revision	Date	Author	Revision Comments
0.1	January 23, 2010	Ryan Pierce, FPL Jim Northey, Lasalle Technology Group	Initial draft
0.2	February 19, 2010	Ryan Pierce, FPL	Approved for public comment with changes at the February 19, 2010 GTC meeting: Removed PartyIDSource and updated comments to indicate that this is pending the outcome of FPL's discussions with ISO. Related Market renamed to Away Market

1 Introduction

Recent regulatory changes originating from FINRA have brought to light a gap in FIX Protocol functionality. Within FIX, one can easily indicate the market where a trade executes, e.g. the LastMkt (30) field. However, FIX has no current mechanism to indicate where a trade is reported (aka "prints"). An Exchange typically reports trades that are executed on it. Alternately, trades executed over-the-counter may be reported to a number of Trade Reporting Facilities (TRFs), Alternative Display Facilities (ADFs), or OTC Reporting Facilities (ORFs) which we will collectively refer to as TRFs. Non-exchange markets, such as ATSs and ECNs, execute trades but often report them on such TRFs. While these TRFs are often operated by or affiliated with an Exchange, it would be inappropriate to confuse the TRF with the Exchange itself. For example, an ATS that executes trades and reports them on the FINRA/NYSE TRF is not executing trades on NYSE, nor are the trades reported on the NYSE Exchange. Currently, FIX can express the role of execution and can identify the ATS through ISO 10383 MIC codes, but FIX has no concept of the role of the TRF, nor any separate code list that identifies TRFs as distinct entities.

FINRA Regulatory Notice 09-54 places new requirements on firms submitting non-tape reports. The executive summary states:

> Effective Monday, March 1, 2010, firms submitting a non-tape report (either a non-tape, non-clearing report or clearing-only report) to the Alternative Display Facility (ADF), a Trade Reporting Facility (TRF) or the OTC Reporting Facility (ORF) (referred to herein as the "FINRA Facilities") associated with a previously executed trade that was not reported to that same FINRA Facility must identify the facility or market where the associated trade was reported for dissemination purposes (the "Related Market Center").

While these regulatory requirements did originate in the US, it is conceivable that any country or region with multiple markets and TRFs may similarly desire that such transparency exist.

Additionally, while a market, such as en Exchange, ECN, or ATS, may execute a trade, it may route the trade to another market, likely to lift a displayed quote via an Immediate or Cancel order, such as an Intermarket Sweep order. Trades resulting in such outbound routing can be indicated in LastLiquidityInd (851) using the enumeration Liquidity Routed Out (3). However, FIX does not currently have the ability to specify the destination market. A standard means for indicating such transparency would be a helpful addition to the FIX Protocol.

2 Business Workflow

Assume that:

- · Broker A sends an order to
- · Broker B, who executes it on a riskless principal basis on
- · ATS C, who prints it on
- · TRF D

as illustrated below:
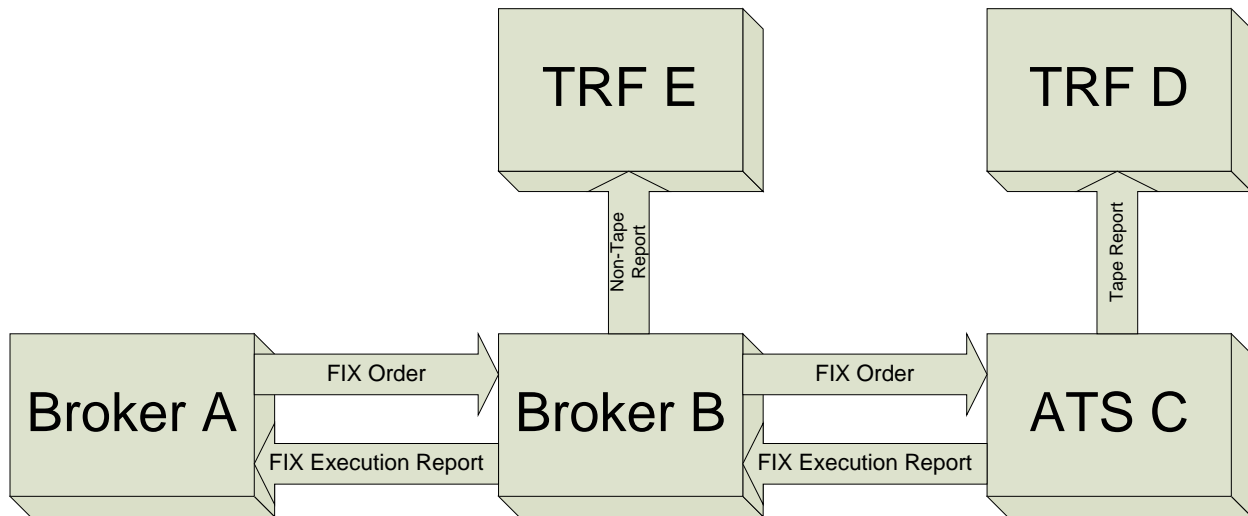
In this example, ATS C makes a tape report to clear the trade to Broker B; this trade is reported to the tape. Broker B must also make a non-tape clearing-only report to clear the trade to Broker A; this trade does not print to the tape, as the ATS is responsible for making the tape report, and the trade must only print once. Let us say that Broker B makes this non-tape report to TRF E.

In this example, Broker B's non-tape report to TRF E is affected by the FINRA Regulatory Notice. For Broker B to make an accurate report, Broker B will need to know which TRF was used by ATS C.

It is possible that this information can be communicated out of band, e.g. Broker B knows that ATS C always prints to TRF D. However, it is possible that an ATS may have connectivity to redundant TRFs and could print any given trade on either TRF D, E, or F. For Broker B to give an accurate answer, ATS C would need to inform Broker B of the TRF used. A mechanism to do this in FIX is needed.

Additionally, if Broker A executed the trade on a riskless principal basis for another broker, then Broker A would need to make a non-tape report to clear the trade as well. Broker B might not wish to disclose that the order executed on ATS C. For Broker A to make an accurate report, Broker B must tell Broker A that the trade printed on TRF D. Likewise, a mechanism to do this in FIX is needed.

The proposed method is to create two new PartyRole (452) enumerations:

· Reporting Market Center

· Related Reporting Market Center

In the above example, ATS C can send Broker B an Execution Report with a PartyRole of Reporting Market Center and a PartyID (448) indicating TRF D. Broker B can do likewise when sending an Execution Report to Broker A.

When Broker B submits a non-tape clearing-only report to TRF E, the report can contain a PartyRole of Related Reporting Market Center where the PartyID identifies TRF D. This indicates that the tape report related to this transaction was sent to TRF D.

In these examples, the trade executed on an ATS and printed on a TRF. Trades can also print on Exchanges themselves. In the above example, ATS C could be called Exchange C, and Exchange C would print the trade. While Broker B knows the trade executed on Exchange C, Broker B may need to indicate this to Broker A, should Broker A need to make a non-tape report. In this case, Broker B's Execution Report to Broker A contains a Reporting Market Center that is Exchange C. It follows that a Reporting Market Center or Related Reporting Market Center must be able to identify both an Exchange and a TRF.

Additionally, FINRA requires a number of meta-values, all of which need a mapping to FIX:

· Foreign exchange – e.g. the tape report went to a non-FINRA market

· Multiple venues – e.g. a broker sends a single average price trade to another broker for a trade executed in part on multiple exchanges

· Unknown venue – e.g. the party executing the trade for a broker does not inform the broker where the trade executed or printed

It is important to note that while FINRA mandates the reporting of Related Market Center to the TRF, if known, FINRA does not currently require, as in the above example, ATS C to report this information to Broker B, or Broker B to report it to Broker A. It follows that, in such cases, a broker submitting a non-tape report would send "Unknown venue."

It is important that the FIX Protocol poses no obstacles to the transmission of this information. This Gap Analysis adds the following functionality to the Parties block:

· A new PartyRole of "Reporting Market Center" which can be used by brokers, exchanges, and ATS's in Execution Reports to indicate where a trade printed.

· A new PartyRole of "Related Reporting Market Center" which can be used by brokers submitting non-tape reports to TRFs. At present, we believe a number of proprietary methods for conveying this information have been adopted by the TRFs. The purpose of this is to create a single interoperable standard that may, in the future, be adopted by the TRFs.

An additional requirement, which is unrelated to FINRA Regulatory Notice 09-54, is the identified need for transparency should an Exchange or ATS route an order away to another Exchange or ATS. As stated above, LastLiquidityInd (851) can indicate the presence of an order routed away. For a venue to indicate which away market executed the order, this Gap Analysis adds the following functionality to the Parties block:

A new PartyRole of "Away Market" which, if sent on an Execution Report, indicates where the Exchange routed the order, resulting in the current trade

3 Issues and Discussion Points

When using a PartyRole of "Reporting Market Center" or "Related Reporting Market Center" to identify an Exchange, the PartyID (448) would be represented as an ISO 10383 MIC code, and the PartyIDSource (447) would be G = MIC.

Currently, there are a number of TRFs which do not have MIC codes:

· FINRA ADF

· FINRA/NASDAQ TRF

· FINRA/NYSE TRF

· FINRA ORF

UPDATE: Since ratification of this Gap Analysis, these have been assigned MIC codes as follows:

· FINR = FINRA ADF

· FINN = FINRA/NASDAQ TRF

· FINY = FINRA/NYSE TRF

· FINO = FINRA ORF

And there are the three FINRA meta-values as listed above:

· Foreign exchange

· Multiple venues

· Unknown venue

3.1 Code list for TRF Identifiers

FPL is in communication with the ISO 10383 Registration Authority (SWIFT) and other ISO standards participants regarding the registration of TRFs to register MIC codes, as well as the creation of these meta-values, which would be added to the ISO 10383 standard.

We also need to determine whether the meta-values of Foreign Exchange, Multiple venues, and Unknown venues can be part of the ISO 10383 code list. In particular, the term "Foreign Exchange" may need to be clarified so that it is not confused with currency trading.

Should ISO 10383 fail to add support for TRFs and the above meta-values, FPL may need to create a registry of TRFs. This will be accomplished through addition of a PartyIDSource enumeration of "Trade Reporting Facility ID (FPL assigned)" which will be used to indicate FPL-assigned codes. FPL will then maintain a code list on the www.fixprotocol.org website which contains the above seven values, and will update this list to track changes. While the four TRFs listed above are specific to the US, this would only be an initial list; FPL would be willing to assign codes to TRFs in other nations.

As the discussion with ISO is underway, this PartyIDSource value will not be added to the FIX Protocol at present. It may be added at a future date, pending the outcome of the discussions with ISO.

3.1.1 Discussion with Registration Authority (redacted)

Response from Registration Authority

*Before assigning MICs for Trade Reporting Facilities, I believe it should be discussed and approved at ISO level (SC4 or at another appropriate level?). We have refused until now to create MICs for Trade Reporting Facilities as they do not fit what the MIC standard is for ("**identification of exchanges, trading platforms and regulated or non-regulated markets as sources of prices and related information in order to facilitate automated processing**"). If you believe it does fit the standards definition, and if ISO agrees with it, we will be happy to issue MICs for those as well. I would however recommend a discussion takes place first as BIC (in its revised Business Identifier Code version) might be a more appropriate identifier.*

Response from FPL:

SC4 would be the appropriate venue. As one of the purposes for trade reporting is price dissemination – and that a trade reporting facility becomes a source of price information – I would think that the MIC is the logical place to assign and maintain these values given the definition supplied.

4 Appendix A - Data Dictionary

Tag	Field Name	Action	Data type	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
452	PartyRole	Add enum	int	… 92 = Reporting Market Center 93 = Related Reporting Market Center 94 = Away Market	@R	

5 Appendix B - Glossary Entries

Term	Definition	Field where used
Reporting Market Center	Either an Exchange, ATS, ECN, or other market, or a Trade Reporting Facility, Alternative Display Facility, or OTC Reporting Facility that reported or printed the transaction to the tape.	PartyRole
Related Reporting Market Center	Either an Exchange, ATS, ECN, or other market, or a Trade Reporting Facility, Alternative Display Facility, or OTC Reporting Facility that reported or printed a transaction related to the current transaction to the tape. This can be used, when submitting a non-tape report, to indicate where the tape report was submitted.	PartyRole
Away Market	Should a market route an order to another market for execution, the first market can indicates the second market's identity as an Away Market in the Execution Report sent to the order originator. This is also known as a Related Market.	PartyRole
TRF	Trade Reporting Facility; used generically to include any trade reporting facility, which also includes Alternative Display Facilities (ADFs) and OTC Reporting Facilities (ORFs).	
Print to tape	The process to disseminate a trade via a trade reporting facility to the consolidate tape service (trade market data feed).	

6 Appendix C - Usage Examples