



MMI/FPL Wealth Management Workgroup Specific Lot Allocation Proposal

November 15, 2011

[Revision 0.2]

Proposal Status: Approved

For Global Technical Committee Governance Internal Use Only

Submission Date:	November 18, 2010	Control Number:	EP127
Submission Status	Approved	Ratified Date	Jan. 7, 2011
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Document History

Revision	Date	Author	Revision Comments
0.1	10/21/2010	Heeren Pathak, Vestmark	Initial Document
0.2	Nov. 15, 2010	L. Taikitsadaporn	Tidy up for GTC submission.
0.2	2011-08-22	Jim N	As built
0.2	2011-08-26	L. Taikitsadaporn	Corrected new fields names in text to match data dictionary
ASBUILT	2011-11-15	Jim N	Modified FIXML abbreviation for Current from "Crrnt" to "Cur".
	November 27, 2011	L. Taikitsadaporn	Replaced TBD in proposal text with assigned tag numbers and enum values. Editted field usage reference to remove redundant description that duplicate data dictionary. Corrected FIXML abbreviations in data dictionary for "Cost" from "Cst" to "Cost" to match Repository.
	January 12, 2012	L. Taikitsadaporn	Final clean up: regenerated TOC and replaced one more TBD in narrative text with assigned value.

1 Introduction

The Wealth Management industry is a steadily growing industry that is managing trillions of dollars of assets. Much of the trading of those assets occurs through the use of proprietary trading interfaces. The Money Management Institute Data Standards Committee is a group whose charter is to promote the development and use of standards within the Wealth Management industry. This committee partnered with FPL to form a trading sub-committee to help define trading standards within the Wealth Management industry.

Looking at the version of the FIX protocol in use today within Wealth Management firms, this joint sub-committee decided to promote the use of FIX 4.2 as the baseline standard to help promote standards-based trading without requiring existing industry participants to incur upgrade costs. As part of the work of the joint committee, a Rules of Engagement document was developed to capture basic trading use cases for Equity trading.

The one trading use case that the FIX protocol did not support as part of its standard tags is that ability to transmit instructions for specific-lot allocations. Specific-lot trade allocations are a key benefit provided by Wealth Managers who provide advisory services to retail customers. In any given year, 10%-30% of the customer accounts managed by a Wealth Manager will get "Tax Harvest" request from the customer to harvest either gains or losses for tax purposes. Additionally, some Wealth Managers provide active tax management services that look to keep a client's overall gain/loss within a certain range.

One of the key issues with specific-lot trading is determining how to identify the lot. This issue requires common methods for custodians and Wealth Managers to synchronize on lots, making it both a trading and custodial reconciliation problem. Additionally, this issue became even more critical due to the Cost Basis Regulations requirement by the Emergency Economic Stabilization Act in the US. This act requires that custodians maintain and report to investors and the IRS accurate cost basis on trades. One of the allocation methods explicitly required by the act is the support lot-specific allocation instructions.

Given the various committees affected by the lot identification issue, the MMI Cost Basis Sub-committee took on this issue and developed recommended methods for identifying tax lots. This document captures this recommendation and proposes extensions to the FIX Protocol to support specific lot allocation instructions.

2 Business Workflow

The typical workflow is that the Wealth Manager would sell specific lots that were previously purchased by the client to realize the gains or losses for their client's tax purposes. Once an order is completed, the Wealth Manager allocates across their clients' accounts. At the point of allocation the Wealth Manager must identify the lot being sold by each client account. This information will flow through to the custodians so that proper reporting to the IRS can be done.

The MMI Cost Basis group identified three mechanisms by preferred priority to identify lots. Different mechanisms were needed to handle timing issues associated with the processing of corporate actions and reorganizations as well as to support limitations associated with existing systems. By order of priority, the recommended specific lot identification mechanisms are:

1. Custodial Lot ID. This data element consists of a unique lot identifier provided by the custodian. At minimum, the lot identifier needs to be at least unique with the scope of a single account and security, but may be more globally unique.

2. Versus Purchase (VSP) Date and Versus Purchase (VSP) Price. This combination of data elements are to be used if a Custodial Lot Identifier is not known or cannot be handling by the system transmitting the allocation instruction.
 - a. VSP Date is defined as being the Effective Acquisition Date for gain-loss purposes.
 - b. VSP Price is defined as the calculated price per share based on the current cost basis used to calculated gain-loss divided by the number of shares held in the lot.
3. VSP Date and Current Cost Basis. This combination of data elements are to be used if a prior two methods cannot be used due to data availability or system limitations.
 - a. VSP Date is defined as being the Effective Acquisition Date for gain-loss purposes.
 - b. Current Cost Basis is defined as the Current cost basis used to calculated gain-loss.

The FIX currently has user-defined tags, VSPDate (Tag 5751) and VSPPrice (Tag 5752) that can be used for supporting specific lot allocation instructions in FIX 4.2. However, these tags by themselves do not cover all the business scenarios identified and they are also not part of the Allocation messages where this is needed.

In summary this proposal requires the following new tags to support the regulation:

- CustodialLotID (1752) and LegCustodialLotID (1752)
- VersusPurchaseDate (1753) and LegVersusPurchaseDate (1757)
- VersusPurchasePrice (1754) and LegVersusPurchasePrice (1758)
- CurrentCostBasis (1755) and LegCurrentCostBasis (1759)

3 Issues and Discussion Points

Ideally, these tags would only need to be added to the latest version of the FIX Protocol. However, due to the Cost Basis Legislation requirements, this issue becomes a regulatory issue. The Cost Basis Regulations go into effect starting January 1st, 2011. Given the time frame involved, it would be expected that older versions of FIX would need to support these tags and consideration must be given on how to support this functionality both within the standards as well through the use of User Defined Fields as older FIX engines and implementation may not be able to support new standard tags added to the FIX message structure.

The joint MMI-FPL working group looked to identify existing User Defined Tags to leverage. The only such tags that seem to be appropriate are VSPDate (Tag 5751) and VSPPrice (Tag 5752).

Two additional User Defined Fields are needed to support this regulatory requirement: CustodialLotID and CurrentCostBasis. The working group requests that two UDFs be assigned for the reason that the Wealth Management community has identified that there are implementations using FIX engines that cannot accommodate tag numbers from later versions of FIX and have limited the UDF range to that defined for FIX 4.2.

4 Proposed Message Flow

The proposal recommends that the FIX Allocation Sub-Group be extended to optionally allow for specific lot-instructions to be transmitted. All messages that support the Allocation Sub-Group would be impacted by this change.

The basic proposed approach is to extend the repeating group associated with allocation instructions with additional attributes. This extension applies to both pre-execution allocations and post-execution allocations. To achieve this extension, any message or component block that contains the tag, NoAllocs <78>, would be impacted.

The MMI is focused on the FIX 4.2 protocol as that is the version of the protocol widely in use within the managed accounts space. Within 4.2, it is expected that this instructions would be used in the following messages where the NoAllocs tag is used:

1. NewOrder – Single Message <D>, if pre-allocated, specific-lot trading instructions are being provided.
2. NewOrder – List Message <E>, if pre-allocated, specific-lot trading instructions are being provided
3. Order Cancel – Replace Request Message <G>, if pre-allocated, specific-lot trading instructions are being provided
4. Allocation Message <J>, if specific-lot trading instructions are being provided

With FIX 5.0, allocations instructions are more widely available in a number of additional messages. To facilitate this distribution, FIX has introduced component blocks to support a pattern for reuse of repeating groups. The components that use the NoAllocs tag that would need to be extended are:

1. AllocAckGrp
2. AllocGrp
3. PreAllocGrp
4. PreAllocMlegGrp
5. LegPreAllocGrp
6. TrdAllocGrp

5 FIX message tables

No changes to messages. See changes below for Component blocks.

6 FIX component blocks

As noted previously, there are a number of component blocks that would be impacted. All these component blocks are impacted in a similar fashion. Essentially, wherever the NoAlloc tag is found, the reporting group associated with this tag would be modified in the same manner.

6.1 AllocGrp Component Block

<i><AllocGrp></i>					
<i>Tag</i>	<i>Field Name</i>	<i>Req'd</i>	<i>Action</i>	<i>Mappings and Usage Comments</i>	<i>Comments</i>
78	NoAllocs	N		Indicates number of allocation groups to follow	

à	79	<i>AllocAccount</i>	N		Individual Investor Account	
à	661	<i>AllocAcctIDSource</i>	N			
à	573	<i>MatchStatus</i>	N			
à	366	<i>AllocPrice</i>	N			
à	80	<i>AllocQty</i>	N		Total Number of Shares	
à	1752	CustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.
à	1753	VersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either VersusPurchasePrice(1754) or CurrentCostBasis(1755) should be specified.
à	1754	VersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	1755	CurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	467	<i>IndividualAllocID</i>	N			
<i>(truncated....)</i>						
<i></AllocGrp></i>						

6.2 AllocAckGrp Component Block

<i><AllocAckGrp></i>						
Tag	Field Name		Req'd	Action	Mappings and Usage Comments	Comments
78	NoAllocs		N		Indicates number of allocation groups to follow	
à	79	<i>AllocAccount</i>	N		Individual Investor Account	
à	661	<i>AllocAcctIDSource</i>	N			
à	366	<i>AllocPrice</i>	N			
<i>(truncated....)</i>						
à	80	<i>AllocQty</i>	N		Total Number of Shares	
à	1752	CustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.
à	1753	VersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either VersusPurchasePrice(1754) or CurrentCostBasis(1755) should be specified.

à	1754	VersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	1755	CurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
</AllocAckGrp>						

6.3 PreAllocGrp Component Block

<PreAllocGrp>						
Tag	Field Name		Req'd	Action	Mappings and Usage Comments	Comments
78	NoAllocs		N		Indicates number of allocation groups to follow	
à	79	AllocAccount	N		Individual Investor Account	
à	661	AllocAcctIDSource	N			
à	736	AllocSettlCurrency	N			
à	467	IndividualAllocID	N			
à	component block <NestedParties>					
à	80	AllocQty	N		Total Number of Shares	
à	1752	CustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.
à	1753	VersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either VersusPurchasePrice(1754) or CurrentCostBasis(1755) should be specified.
à	1754	VersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	1755	CurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
</PreAllocGrp>						

6.4 PreAllocMlegGrp Component Block

<PreAllocMlegGrp>

Tag	Field Name	Req'd	Action	Mappings and Usage Comments	Comments
78	NoAllocs	N		Indicates number of allocation groups to follow	
à	79 AllocAccount	N		Individual Investor Account	
à	661 AllocAcctIDSource	N			
à	736 AllocSettlCurrency	N			
à	467 IndividualAllocID	N			
à	component block <NestedParties3>				
à	80 AllocQty	N		Total Number of Shares	
à	1752 CustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.
à	1753 VersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either VersusPurchasePrice(1754) or CurrentCostBasis(1755) should be specified.
à	1754 VersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	1755 CurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
</PreAllocMlegGrp>					

6.5 TrdAllocGrp Component Block

<TrdAllocGrp>					
Tag	Field Name	Req'd	Action	Mappings and Usage Comments	Comments
78	NoAllocs	N		Indicates number of allocation groups to follow	
à	79 AllocAccount	N		Individual Investor Account	
à	661 AllocAcctIDSource	N			
à	736 AllocSettlCurrency	N			
(truncated....)					
à	80 AllocQty	N		Total Number of Shares	
à	1752 CustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.

à	1753	VersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either VersusPurchasePrice(1754) or CurrentCostBasis(1755) should be specified.
à	1754	VersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
à	1755	CurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, VersusPurchaseDate(1753) should be specified.
(truncated....)						
</TrdAllocGrp>						

6.6 LegPreAllocGrp Component Block

<LegPreAllocGrp>						
Tag	Field Name		Req'd	Action	Mappings and Usage Comments	Comments
670	NoLegAllocs		N		Indicates number of allocation groups to follow	
à	671	LegAllocAccount	N		Individual Investor Account	
à	672	LegIndividualAllocID	N			
à	component block <NestedParties2>		N			
à	673	LegAllocQty	N		Total Number of Shares	
à	674	LegAllocAcctIDSource	N			
à	1367	LegAllocSettlCurrency	N			
à	1756	LegCustodialLotID	N	Add	Custodial Lot Identifier	Only used for specific lot trades.
à	1757	LegVersusPurchaseDate	N	Add	Acquisition Date of the Lot. Defined as the effective acquisition date that would be used for gain-loss reporting.	Only used for specific lot trades. If this field is used, either LegVersusPurchasePrice(1758) or LegCurrentCostBasis(1759) should be specified.
à	1758	LegVersusPurchasePrice	N	Add	Price per Share. The Price value should be computed as Current Cost Basis / Quantity Held	Only used for specific lot trades. If this field is used, LegVersusPurchaseDate(1757) should be specified.
à	1759	LegCurrentCostBasis	N	Add	Current Cost Basis for the lot	Only used for specific lot trades. If this field is used, LegVersusPurchaseDate(1757) should be specified.
</LegPreAllocGrp>						

7 Appendix A - Data Dictionary

Tag	Field Name	Action	Data type	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
1752	CustodialLotID	New	String	An opaque identifier used to communicate the custodian's identifier for the lot. It is expected that this information would be provided by the custodian as part of a reconciliation process that occurs before trading.	@CstdlLotID	Add to: AllocAckGrp AllocGrp PreAllocGrp PreAllocMlegGrp TrdAllocGrp
1753	VersusPurchaseDate	New	LocalMkt Date	The effective acquisition date of the lot that would be used for gain-loss trade lot reporting. The versus purchase date used to identify the lot in situations where a custodial lot identifier is not available.	@VSPDt	Add to: AllocAckGrp AllocGrp PreAllocGrp PreAllocMlegGrp TrdAllocGrp
1754	VersusPurchasePrice	New	Price	The versus purchase price used to identify the lot in situations where a custodial lot identifier is not available. The value should be calculated based on current cost basis / quantity held.	@VSPPx	Add to: AllocAckGrp AllocGrp PreAllocGrp PreAllocMlegGrp TrdAllocGrp

1755	CurrentCostBasis	New	Amt	The amount that the current shares are worth. If this lot was liquidated, the total gain/loss for a trade is equal to the trade amount minus the current cost basis.	@CurCostBasis	Add to: AllocAckGrp AllocGrp PreAllocGrp PreAllocMlegGrp TrdAllocGrp
1756	LegCustodialLotID	New	String	An opaque identifier used to communicate the custodian's identifier for the lot. It is expected that this information would be provided by the custodian as part of a reconciliation process that occurs before trading.	@CstdlLotID	Add to: LegPreAllocGrp
1757	LegVersuPurchaseDate	New	LocalMkt Date	The effective acquisition date of the lot that would be used for gain-loss trade lot reporting. The versus purchase date used to identify the lot in situations where a custodial lot identifier is not available.	@VSPDt	Add to: LegPreAllocGrp
1758	LegVersusPurchasePrice	New	Price	The versus purchase price used to identify the lot in situations where a custodial lot identifier is not available. The value should be calculated based on current cost basis / quantity held.	@VSPPx	Add to: LegPreAllocGrp
1759	LegCurrentCostBasis	New	Amt	The amount that the current shares are worth. If this lot was liquidated, the total gain/loss for a trade is equal to the trade amount minus the current cost basis.	@CurCostBasis	Add to: LegPreAllocGrp

8 Appendix B - Glossary Entries

Term	Definition	Field where used

Appendix C – Abbreviations

Term	Proposed Abbreviation	Proposed Messages, Components, Fields where used
Custodial	Cstdl	
Current	Cur	
Cost	Cost	
VersusPurchase	VSP	

9 Appendix D - Usage Examples