



## Global Fixed Income Committee

### *Mid-Market Mark & Unique Swap Identifier Extension*

July 22, 2013

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#### For Global Technical Committee Governance Internal Use Only

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Primary Contact Person	Paul O'Brian, Etrading Software Ltd., for GFIC	Release Identifier	<u>5.0 SP3</u>

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# 1 Introduction

In 2011 the Global Fixed Income Committee produced a set of best practices documents for trading CDS & IRS products, *Best Practices for Trading Fixed Income Instruments – CDS & IRS*. This document set describes how to use FIX 5.0 SP2 for pre-trade and trading workflows between the sell-side and execution venue and was officially ratified by the FPL community in January 2012.

In 2012 the Global Fixed Income Committee worked to create a similar set of best practices documents for the cash bond market, *Best Practices for Trading Fixed Income Instruments – Cash Bonds*. These documents were ratified by FPL and released in February 2013. The focus of the committee this year has been on extending the coverage of the documents to support additional functionality resulting from the emerging regulatory changes. As a result of this year's work, a number of gaps have been identified in the FIX 5.0 SP2 specification and these are presented in this gap analysis proposal to the Global Technical Committee. These enhancements will be documented in Phase 3 of the *Best Practices for Trading Fixed Income Instruments – CDS & IRS* which is expected to be ratified by the end of 2013.

## 1.1 Summary of Proposed Changes

### 1.1.1 Mid-Market Mark

For swaps transactions that are not cleared through a clearinghouse, Dodd-Frank Act states that swap dealers (SD) and major swap participants (MSP) are required to disclose the "price" of the swap at the "mid-market mark" prior to entering into a swap with a counterparty (other than another SD or MSP). The rules state:

- This must be calculated at mid-market, exclusive of amounts for profit, credit reserve, funding, liquidity or any other costs or adjustments
- A SD/MSP must also disclose the methodology and assumptions used to prepare the mark, and other information to ensure fair and balanced communications
- Marks must be "as of the close of business" or as otherwise agreed in writing between the counterparties

#### **Proposal**

We propose adding the MidPx(631) field to the following messages:

- ExecutionReport(35=8)
- TradeCaptureReport(35=AE)

We also propose adding MidPx(631) to the following components:

- QuotReqGrp

Note that this field already exists in the Quote(35=S), QuoteResponse(35=AJ) and QuoteStatusReport(35=AI) messages. Additionally, the market data messages also provide support for the mid-price.

The new field, LegMidPx(~~the~~2346), is also proposed for the following components as mid-market marks are required for each leg of a strategy:

- InstrmtLegExecGrp
- LegQuotGrp
- LegQuotStatGrp
- QuotReqLegsGrp
- TrdInstrmtLegGrp

Note that for uncleared swaps, the LegMidPx(~~2346the~~) and MidPx(631) fields are mutually exclusive, therefore when the LegMidPx(~~2346the~~) field is populated the MidPx(631) field is not specified.

### 1.1.2 Unique Swap Identifier (USI)

The Dodd-Frank Act's 17 CFR Part 45 states that the USI is to be created at the time a swap is executed, shared with all registered entities and counterparties involved with the swap transaction, and used to track that particular swap over its life.

The CFTC have published [technical standards for the format of USI<sup>1</sup>](#) and this document details the structure of the USI as described below:

- Namespace – consists of 10 alpha-numeric (uppercase) characters [3 character prefix, followed by 7 character identifier]
- Transaction Identifier - consists of maximum 32 characters (alpha-numeric with an additional set of special characters [colon, hyphen (minus), period (full stop), underscore] permissible as internal delimiters)

#### ***Proposal***

EP161 introduced the RegulatoryTradeIDGrp component, adding it to the TradeCaptureReport(35=AE) message, for the purpose of trade reporting to swaps data repositories (SDR).

In order to allow USI to be assigned and captured at the point of execution, the RegulatoryTradeIDGrp component is proposed to be added to the following messages:

- ExecutionReport(35=8)
- ExecutionAcknowledgement(35=BN)

---

<sup>1</sup> <http://www.cftc.gov/ucm/groups/public/@swaps/documents/dfsubmission/usidatastandards100112.pdf>



## 2 Business Requirements

### 2.1.1 Mid-Market Mark

On May 1<sup>st</sup> 2013, the Business Conduct Standards for swap dealers and major swap participants went into effect. The official document is available to view at the link below. One of the requirements resulting from this document is the need for swap dealers and major swap participants to provide counterparties with pre-trade mid-market marks.

<http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2012-1244a.pdf>

Section 23.431(a)(3) states that swap dealers and major swap participants are required to include with the price of the swap, the mid-market mark of that swap. In addition, swap dealers and major swap participants are required to disclose any compensation or benefit that they receive from any third party in connection with the swap.

#### **Daily Mark**

Additionally, section 23.431(d) states the following requirements:

1. *“For cleared swaps, upon request of the counterparty, receipt of the daily mark of the transaction from the appropriate DCO”*
2. *“For uncleared swaps, receipt of the daily mark of the swap transaction from the swap dealer or major swap participant”*

For cleared swaps, swap dealers and major swap participants are required to notify counterparties of their rights to receive, upon request, the daily mark from the appropriate DCO.

For uncleared swaps, swap dealers and major swap participants are required to provide a daily mark to their counterparties on each business day during the term of the swap as of the close of business, or such other time as the parties agree in writing.

*“The Commission proposed to define the daily mark for uncleared swaps as the mid-market mark of the swap, which would specifically not include amounts for profit, credit reserve, hedging, funding, liquidity or any other costs or adjustments.”*

*“Further, the Commission proposed that swap dealers and major swap participants disclose both the methodology and assumptions used to prepare the daily mark, and any material changes to the methodology or assumptions during the term of the swap.”*

### **Examples of Usage**

Below are three examples where the mid-market mark will be sent:

1. Venue sends their estimated mid-market mark to the dealer. Dealer echoes mid-market mark back to the venue.
2. Venue sends their estimated mid-market mark to the dealer. Dealer overrides the estimated mid-market mark and sends back updated value to the venue.
3. Dealer sends their mid-market mark directly to the venue.

### **Requirements**

The MidPx(631) field needs to be added to both the ExecutionReport(35=8) and QuoteRequest(35=R) messages for the protocol to fully support these use cases.

For post-trade reporting, execution venues using the TradeCaptureReport(35=AE) will need to include the mid-market mark as part of the transaction record.

## **2.1.1 Unique Swap Identifier (USI)**

17 CFR Part 45 details the requirements of the USI. This document is available to view at the link below:

<http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2011-33199a.pdf>

Additionally, below is a white paper published by FPL detailing how to use FIX to support the USI:

[http://www.fixprotocol.org/documents/7302/RegulatoryTradeIDGrp%20for%20supporting%20Unique%20Swap%20Identifier%20\(USI\)%20v0.3.pdf](http://www.fixprotocol.org/documents/7302/RegulatoryTradeIDGrp%20for%20supporting%20Unique%20Swap%20Identifier%20(USI)%20v0.3.pdf)

USIs will be created at the following points in the trade life-cycle:

- Point of execution - A new USI is assigned by the Swap Dealer (SD), Major Swap Participant (MSP) or Swap Execution Facility (SEF) at the time of execution for the trade
- Allocation - USIs for each individual allocation at the account level are assigned by the SD, MSP, SEF or agent assigning one side of the swap to client or customer accounts of one of the counterparties. The USI of the replaced trade must be included when reporting to the SDR.
- Clearing - Pairs of USIs are assigned for each cleared trade assigned by the Derivative Clearing Organization (DCO). The immediately previous USI must be included when reporting to the SDR.
- Compression/netting - A new USI is assigned to the netted trade and the USIs of all replaced trades must be reported to the SDR.
- Continuation - When a trade is novated a new USI is created for the trade between the transferee and transferor and a second new USI is created for the new contract between the remaining party and the transferee. Both must include the original trade USI in reports to the SDR

### 3 Issues and Discussion Points

It should be noted that there is an open discussion thread on the FPL forum relating to the USI:

<http://www.fixprotocol.org/discuss/read/d71c5bcc>

**Jul 18, 2013 GTC Review:** At the GTC review meeting for the proposal, it was decided that it was not necessary or needed to have to add MidPx(631) and RegulatoryTradeIDGrp to the TradeCaptureReportAck message as it is not intended for Ack messages to have to echo everything back. The GTC is striving to keep explicit Ack messages light weight.

## 4 Proposed Message Flow

### Electronically Executed Trade

The figure below illustrates the usage of the MidPx(631) field for an electronically executed swap. Note that it is optional for the venue to send an estimated mid-market mark to the sell-side. This diagram also shows how the USI can be sent from the venue to the sell-side at the time of execution.

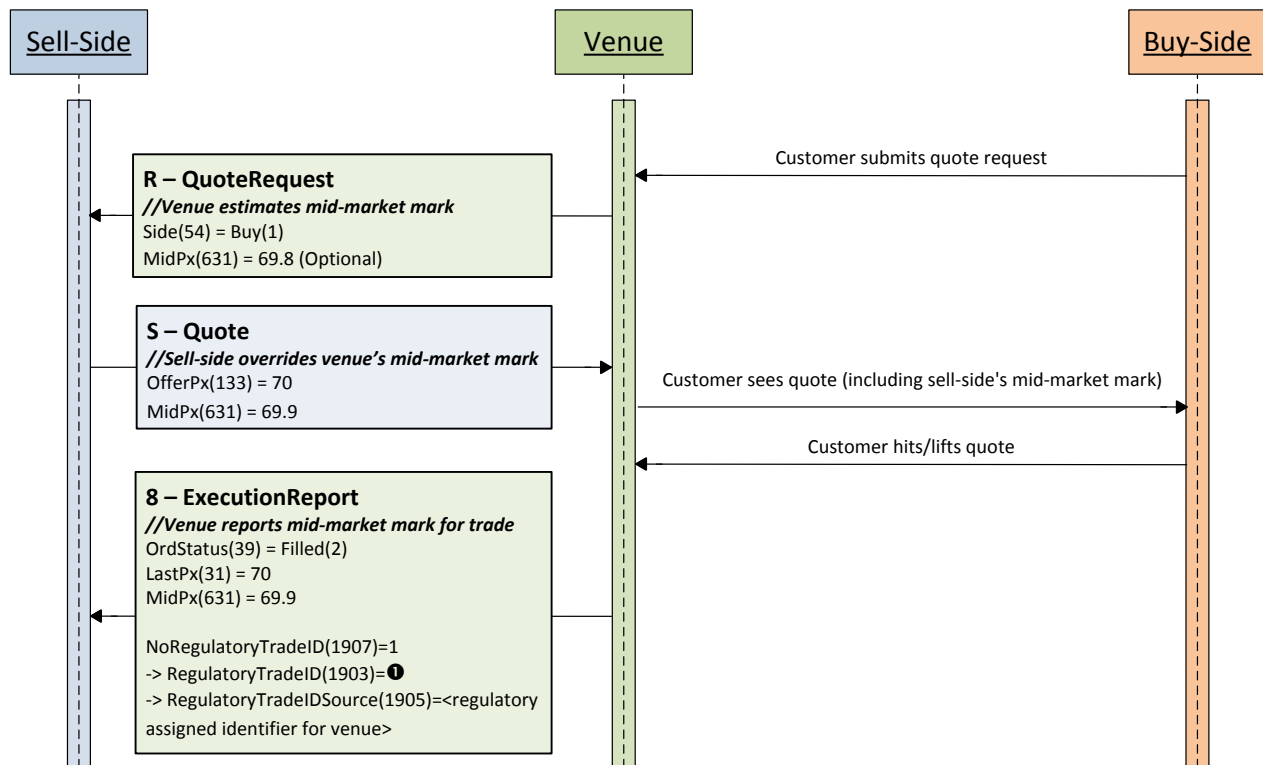


Figure 1: Electronically Executed Trade

### Non-electronically Executed Trade

The figure below illustrates how the mid-market mark can be sent in a TradeCaptureReport(35=AE) from the dealer to the venue. This flow is applicable for uncleared swaps that are bilaterally agreed between the buy-side and sell-side via non-electronic means, where an electronic drop-copy containing the mid-market mark is then sent from the sell-side to the venue. This figure also shows how the USI is communicated at the point of execution.

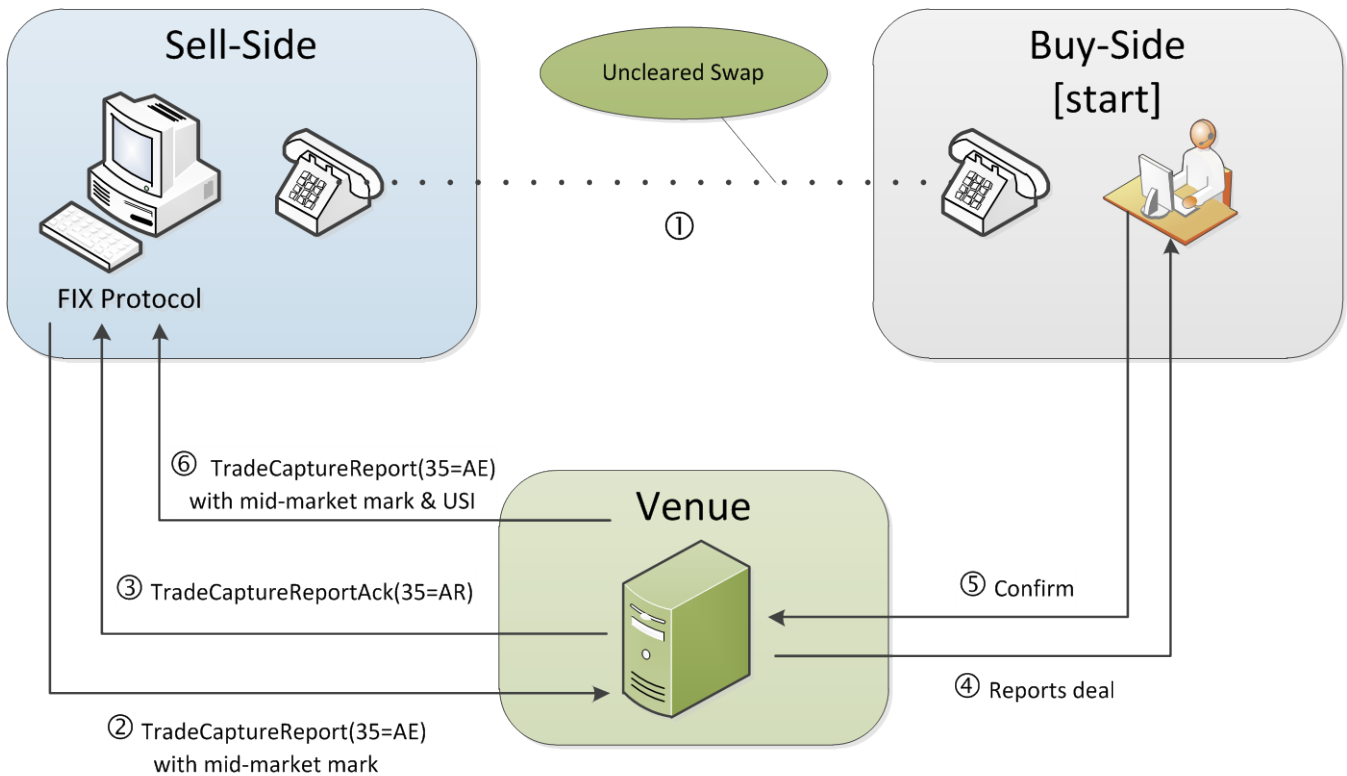


Figure 2: Non-electronically Executed Trade

## 5 FIX Message Tables

### 5.1 FIX Message ExecutionReport

ExecutionReport	
Message Name	ExecutionReport
Message Abbreviated Name (for FIXML)	ExecRpt
Category	SingleGeneralOrderHandling
Message Synopsis	[No change]
Message Elaboration	[No change]
To be finalized by FPL Technical Office	
(MsgType(tag 35) Enumeration)	<a href="#">8</a>
Repository Component ID	<a href="#">9</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	<i>Standard Header</i>	Y				MsgType=8
<...truncated...>						
378	ExecRestatementReason	N				
	<RegulatoryTradeIDGrp>	N		ADD		
1	Account	N				
<...truncated...>						
669	LastParPx	N				
631	MidPx	N		ADD		
194	LastSpotRate	N				
<...truncated...>						
	<i>Standard Trailer</i>	Y				

## 5.2 FIX Message ExecutionAcknowledgement

ExecutionAcknowledgement	
Message Name	ExecutionAcknowledgement
Message Abbreviated Name (for FIXML)	ExecAck
Category	SingleGeneralOrderHandling
Message Synopsis	[No change]
Message Elaboration	[No change]
To be finalized by FPL Technical Office	
(MsgType(tag 35) Enumeration)	BN
Repository Component ID	99

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	Standard Header	Y				MsgType=8
<...truncated...>						
6	AvePxAvgPx	N				
	<RegulatoryTradeIDGrp>	N		ADD		
58	Text	N				
<...truncated...>						
	Standard Trailer	Y				

### 5.3 FIX Message TradeCaptureReport

TradeCaptureReport	
Message Name	TradeCaptureReport
Message Abbreviated Name (for FIXML)	TrdCaptRpt
Category	TradeCapture
Message Synopsis	[No change]
Message Elaboration	[No change]
To be finalized by FPL Technical Office	
(MsgType(tag 35) Enumeration)	<a href="#">AE</a>
Repository Component ID	<a href="#">64</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	<i>Standard Header</i>	Y				MsgType=AE
<...truncated...>						
31	LastPx	N				
<b>631</b>	<b>MidPx</b>	<b>N</b>		<b>ADD</b>		
1522	DifferentialPrice	N				
<...truncated...>						
	<i>Standard Trailer</i>	Y				



## 6 FIX Component Blocks

### 6.1 FIX Component QuotReqGrp

QuotReqGrp	
Component Name	QuotReqGrp
Component Abbreviated Name (for FIXML)	QuotReq
Component Type	Repeating Group
Category	QuotationNegotiation
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2045</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
146	NoRelatedSym	Y				
<...truncated...>						
44	Price	N				
631	MidPx	N		ADD		For OTC swaps, may be used to provide the estimated mid-market-mark.
YieldDataType		N				
<...truncated...>						

## 6.2 FIX Component InstrmtLegExecGrp

InstrmtLegExecGrp	
Component Name	InstrmtLegExecGrp
Component Abbreviated Name (for FIXML)	Exec
Component Type	Repeating Group
Category	SingleGeneralOrderHandling
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2018</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
555	NoLegs	Y				
<...truncated...>						
685	LegOrderQty	N				
<a href="#">2346TBD</a>	<a href="#">LegMidPx</a>	<a href="#">N</a>		<a href="#">NEW</a>		
690	LegSwapType	N				
<...truncated...>						

### 6.3 FIX Component LegQuotGrp

LegQuotGrp	
Component Name	LegQuotGrp
Component Abbreviated Name (for FIXML)	Quot
Component Type	Repeating Group
Category	QuotationNegotiation
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2027</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
555	NoLegs	Y				
<...truncated...>						
685	LegOrderQty	N				
<a href="#">2346TBD</a>	<a href="#">LegMidPx</a>	<a href="#">N</a>		<a href="#">NEW</a>		
690	LegSwapType	N				
<...truncated...>						

## 6.4 FIX Component LegQuotStatGrp

LegQuotStatGrp	
Component Name	LegQuotStatGrp
Component Abbreviated Name (for FIXML)	QuoteStat
Component Type	Repeating Group
Category	QuotationNegotiation
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2028</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
555	NoLegs	Y				
<...truncated...>						
685	LegOrderQty	N				
<a href="#">2346TBD</a>	<a href="#">LegMidPx</a>	N		NEW		
690	LegSwapType	N				
<...truncated...>						

## 6.5 FIX Component QuotReqLegsGrp

QuotReqLegsGrp	
Component Name	QuotReqLegsGrp
Component Abbreviated Name (for FIXML)	Leg
Component Type	Repeating Group
Category	QuotationNegotiation
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2046</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
555	NoLegs	Y				
<...truncated...>						
685	LegOrderQty	N				
<a href="#">2346TBD</a>	LegMidPx	N		NEW		For OTC swaps, may be used to provide the estimated mid-market-mark.
690	LegSwapType	N				
<...truncated...>						

## 6.6 FIX Component TrdInstrmtLegGrp

TrdInstrmtLegGrp	
Component Name	TrdInstrmtLegGrp
Component Abbreviated Name (for FIXML)	TrdLeg
Component Type	Repeating Group
Category	TradeCapture
Component Synopsis	[No change]
Component Elaboration	[No change]
To be finalized by FPL Technical Office	
Repository Component ID	<a href="#">2063</a>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
555	NoLegs	Y				
<...truncated...>						
685	LegOrderQty	N				
<a href="#">TBD2346</a>	<a href="#">LegMidPx</a>	N		NEW		
690	LegSwapType	N				
<...truncated...>						

## 7 Category Changes

No Changes

## Appendix A - Data Dictionary

Tag	FieldName	Action	Datatype	Description	FIXML Abbreviation	Add to / Deprecate from Message type or Component block
631	MidPx	ADD	Price	<p>Mid price/rate.</p> <p>For OTC swaps this is the mid-market mark (for example, as defined by CFTC).</p> <p>For uncleared OTC swaps, <u>LegMidPx(2346)</u> and the <u>MidPx(631)</u> fields are mutually exclusive.</p>	MidPx	<p>Add to the following message:                      ExecutionReport                      TradeCaptureReport</p> <p>Add to the following components:                      QuotReqGrp</p>
<del>TBD</del> 2346	LegMidPx	NEW	Price	<p>Leg Mid price/rate.</p> <p>For OTC swaps this is the mid-market mark (for example, as defined by CFTC)</p> <p>For uncleared OTC swaps, <u>LegMidPx(2346)</u> and the <u>MidPx(631)</u> fields are mutually exclusive.</p>	MidPx	<p>Add to the following components:                      InstrmtLegExecGrp                      LegQuotGrp                      LegQuotStatGrp                      QuotReqLegsGrp                      TrdInstrmtLegGrp</p>

## Appendix B - Glossary Entries

Term	Definition	Field where used

## Appendix C - Abbreviations

Term	Proposed Abbreviation	Proposed Messages, Components, Fields where used

## Appendix D - Usage Examples

[Examples may be entered below this line]