



Global Fixed Income Committee

Regulatory Transaction Type and Block Trade Extension

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Table of Contents

Document History	5
1 Introduction	6
1.1 Summary of Proposed Changes	6
1.1.1 Regulatory Transaction Type	6
1.1.2 Trade Type	7
2 Business Requirements.....	8
2.1.1 Required vs. Permitted Transactions.....	8
2.1.2 Block Trades	8
3 Issues and Discussion Points.....	9
4 Proposed Message Flow	10
5 FIX Message Tables.....	11
5.1 FIX Message ExecutionReport	11
5.2 FIX Message QuoteResponse	12
5.3 FIX Message TradeCaptureReport.....	13
6 FIX Component Blocks	14
6.1 FIX Component QuotReqGrp.....	14
7 Category Changes	15
Appendix A - Data Dictionary.....	16
Appendix B - Glossary Entries	19
Appendix C - Abbreviations.....	19
Appendix D - Usage Examples.....	19

Table of Figures

Figure 1: Quote Request message flow	10
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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 Regulatory Transaction Type

The Dodd-Frank Act's 17 part 37 makes a distinction between:

- Required Transactions - transactions subject to the trade execution mandate and not block trades
- Permitted Transactions - transactions not subject to the clearing and trade execution mandates, illiquid or bespoke swaps, or block trades

Execution venues may need to communicate whether a transaction is 'required' or 'permitted'. This information is typically sent from the execution venue to the dealer in either the QuoteRequest(35=R) or ExecutionReport(35=8) message.

Proposal

We propose adding a new optional field, RegulatoryTransactionType([TBD2347](#)) to the core FIX specification with the following enumerations:

0 = None (default if not specified)

The transaction does not fall under any special regulatory rule or mandate.

1 = Swap Execution Facility Required Transaction

The transaction is a "Required transaction" under Dodd-Frank Act SEF Rules. "Required" transactions are subject to the trade execution mandate under section 2(h)(8) of the CEA and are not block trades.

2 = Swap Execution Facility Permitted Transaction

The transaction is a "Permitted transaction" under Dodd-Frank Act SEF Rules. "Permitted" transactions are not subject to the clearing and trade execution mandates, illiquid or bespoke swaps, or block trades.

We propose adding this new field to the following message:

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

We also propose adding this field to the following component:

- QuotReqGrp

1.1.2 Trade Type

The regulations mention different trading methods and reporting requirements for block trades of swaps. It is important for the execution venues to identify block trades and communicate this information to the dealer. The execution venue will typically send this information pre-trade in a QuoteRequest(35=R) message.

Proposal

The best practices recommend using the field TrdType(828)=Block swap trade(58) to indicate that the message refers to a block trade. As such, we propose adding TrdType(828) to the following messages:

- ExecutionReport(35=8)
- QuoteResponse(35=AJ)

We also propose adding this field to the following component:

- QuotReqGrp

2 Business Requirements

2.1.1 Required vs. Permitted Transactions

On June 4th 2013, the CFTC published the core principals and other requirements for Swap Execution Facilities(SEF).

<http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2013-12242a.pdf>

These regulations define a ‘required transaction’ as any transaction involving a swap that is subject to the trade execution mandate in section 2(h)(8) of the act and a ‘permitted transaction’ as any transaction not involving a swap that is subject to the trade execution mandate.

Furthermore, each ‘required transaction’ that is not a block trade must be executed on a SEF in accordance with one of the following execution methods: (i) an Order Book or (ii) a Request for Quote System that operates in conjunction with an Order Book.

In providing either one of these execution methods, a SEF may use “any means of interstate commerce,” provided that the chosen execution method satisfies the requirements in the rules. For ‘permitted transactions’, a SEF may offer any method of execution.

Execution venues may need to communicate to the sell-side whether a transaction is ‘required’ or ‘permitted’ to be traded on their SEF.

2.1.2 Block Trades

The CFTC’s block trade rules for swaps were finalized recently and published under CFR part 43.

<http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/federalregister051613.pdf>

The commission will adopt a phased-in approach with respect to establishing block trade rules. During the initial period, the commission has set the minimum block size for IRS and CDS products using a 50% notional amount calculation. This initial period will last until registered swap data repositories have collected at least one year of reliable data at which point the block trade level will be established using a 67% notional calculation.

Any trade above the block trade threshold level can be executed bilaterally, away from a SEF and will benefit from a delay in public dissemination of data about the trade under the CFTC’s real time reporting rules. As such, it is important for both SEF and non-SEF platforms to identify block trades and communicate this information to the sell-side.

3 Issues and Discussion Points

- It should be noted that there was consideration given to enumerating the RegulatoryTransactionType field with boolean values. However, the proposed naming convention provides flexibility for any additional transaction types that may emerge from future regulations such as MiFID II, EMIR etc.
- During the GTC meeting on 15th Aug 2013, we discussed whether the existing TrdType(828) field should be used for the purpose detailed in section 1.1.2 of this document, or should a new field be used for this purpose.

Up until this point, TrdType(828) has been used for post-trade messages only. This proposal is the first time this field has been used for pre-trade messages [e.g. QuoteRequest(35=R)] and trade messages [e.g. ExecutionReport(35=8)].

It was decided to re-use the TrdType(828) for the purpose stated in this document. It was noted that more than a single enumeration of the TrdType(828) is required to satisfy the new SEF regulations. We also decided to add a comment in the pre-trade and the trade messages to elaborate on the usage of this field.

4 Proposed Message Flow

Example of Quote Request Message Flow

There is no change to the existing message flow, except for the addition of the RegulatoryTransactionType (TBD2347) field. The figure below illustrates the usage of the RegulatoryTransactionType(TBD2347) and TrdType fields for an electronically executed swap.

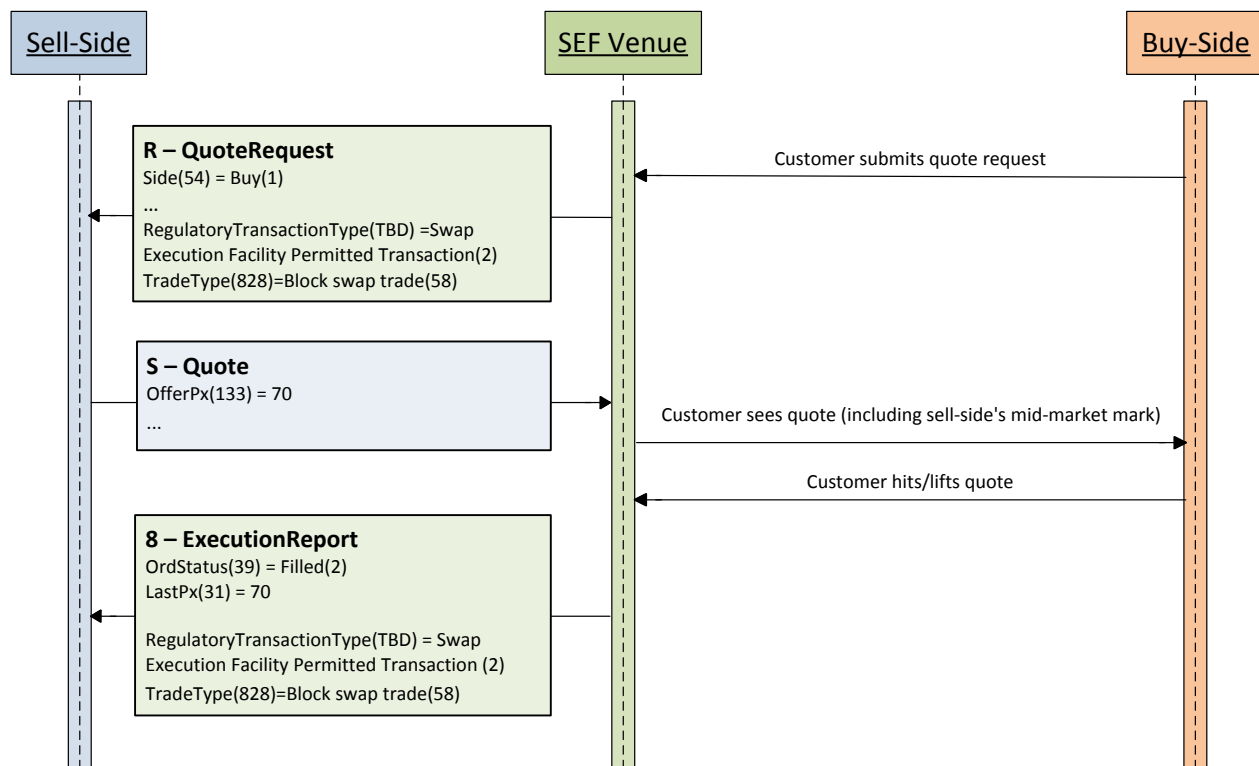


Figure 1: Quote Request message flow

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)	<u>35=8</u>
Repository Component ID	<u>ID=9</u>

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				
828	TrdType	N		ADD		
TBD2347	RegulatoryTransactionType	N		NEW		
1	Account	N				
<...truncated...>						
	<i>Standard Trailer</i>	Y				

5.2 FIX Message QuoteResponse

QuoteResponse	
Message Name	QuoteResponse
Message Abbreviated Name (for FIXML)	QuotResp
Category	QuotationNegotiation
Message Synopsis	[No change]
Message Elaboration	[No change]
To be finalized by FPL Technical Office	
(MsgType(tag 35) Enumeration)	35=AJ
Repository Component ID	ID=69

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	Standard Header	Y				MsgType=AJ
<...truncated...>						
	QuotQualGrp	N				
828	TrdType	N		ADD		May be used by SEFs (Swap Execution Facilities) to indicate a block swap transaction.
FBD 2347	RegulatoryTransactionType	N		NEW		
2115	NegotiationMethod	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)	<u>35=AE</u>
Repository Component ID	<u>ID=64</u>

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
	<i>Standard Header</i>	Y				MsgType=AE
<...truncated...>						
378	ExecRestatementReason	N				
<u>TBD2347</u>	RegulatoryTransactionType	N		NEW		
	RegulatoryTradeIDGrp	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	ID=2045

Tag	Field Name	Req'd	ICR	Action	Mappings and Usage Comments	FIX Spec Comments
146	NoRelatedSym	Y				
<...truncated...>						
	QuotQualGrp	N				
828	TrdType	N		ADD		May be used by SEFs (Swap Execution Facilities) to indicate a block swap transaction.
FBD2347	RegulatoryTransactionType	N		NEW		
2115	NegotiationMethod	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
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<p>DD23 47</p>	<p>RegulatoryTransaction Type</p>	<p>NEW</p>	<p>Int</p>	<p>Specifies the regulatory mandate or rule that the transaction complies with.</p> <p>0 = None (default if not specified) [Elaboration: The transaction does not fall under any special regulatory rule or mandate.]</p> <p>1 = Swap Execution Facility (SEF) Required Transaction [Symbolic name : SEFRequiredTransaction] [Elaboration: The transaction is a "Required" transaction" under Dodd-Frank Act SEF Rules. "Required" transactions are subject to the trade execution mandate under section 2(h)(8) of the CEA and are not block trades.]</p> <p>2 = Swap Execution Facility (SEF) Permitted Transaction [Symbolic name: SEFPermittedTransaction] [Elaboration: The transaction is a "Permitted" transaction" under Dodd-Frank Act SEF Rules. "Permitted" transactions are not subject to the clearing and trade execution mandates, illiquid or bespoke swaps, or block trades.]</p>	<p>@RegTxnTyp</p>	<p>Add to the following messages: ExecutionReport QuoteResponse TradeCaptureReport</p> <p>Add to the following components: QuotReqGrp</p>
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828	TrdType	ADD	Int	[no change]	[no change]	Add to the following messages: ExecutionReport QuoteResponse Add to the following components: QuotReqGrp
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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