Global Buy-Side Working Group

IPO Recommended Practice/Guidelines

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Document History

Revision	Date	Author/Editor	Revision Comments
1.0	3.17.14	Adam Conn	
1.1	4.10.14	Scott Atwell	Technical sections added
1.1a	7.22.14	Scott Atwell	Updated Stepping (Multiple Limit Orders) section
1.1b	8.12.14	Courtney McGuinn	Updated Section 4, Updated Executive Summary
1.1c	10.12.14	Scott Atwell	Added Section 8 (Strike Price ‘Value Orders’) Added Section 9 (Disseminating Details Related to IPO)
1.1d	12.22.14	Scott Atwell	Added Section 10 Diagram: Point-to-Point Added Section 11 Diagram: Multi-broker Deal Hub
1.2	1.28.15	Scott Atwell	Renamed title from: "IPO Best Practices Document" to "IPO Recommended Practice/Guidelines" Grouped Guidelines into a single main chapter, Grouped Diagrams into a single main chapter Removed "DRAFT" watermark, changed "Proposal Status" from "Draft" to "Published" Updated Revision from "1.1d" to "1.2" Incorporated feedback from Global Technical Committee review on 15 Jan, 2015 Revamped "4.2 Order Routing / Addressing" section - Designated the existing paragraph as "For “Point-to-Point” communication (see Diagram 5.1)" - Added new paragraph "For “Multi-broker Deal Hub” communication (see Diagram 5.2)" which specifies sending order without designating a specific broker, and receiving ExecRpt with ExecBroker Modified "5.2 Multi-broker deal Hub" adding "ExecBroker" to the "Send Partial Fill" arrow

1 Executive Summary

Ensuring that the needs of the buy-side community are effectively addressed is a central goal of FIX Trading Community, the non-profit global industry standards organization at the heart of the trading community. To achieve this goal, a Global Buy-Side Committee has been established to deliver a focal point for the global investment management community where informed debate around the business processes, messaging and technical standards affecting the community can take place and best practices, solutions and recommendations can be formulated and delivered. The working group consists of participants from the Americas, EMEA and Asia Pacific regions.

A requirement has been identified for the configuration of a procedure for the electronic transmission of orders for equity IPO's and fixed income New Issues similar to the way secondary market orders are handled. This document sets out recommended best practices to create an STP process for the electronic transmission of new issue orders using the FIX Protocol through from an asset manager's Order Management System to the new issue Deal Managers and receive allocations from it.

2 Objective

The driver for this change is the mitigation of risk. The objective of this document is to create a practice that would bring the new issue order placing process in line with the same procedure used for secondary market orders and trade fills.

At present, the placing of new issue applications is a manual process where the applicant has to repeat the same order to each of the lead managers which could be five or more. This system is not only inefficient but the process increases risk of error in transmission or misinterpretation by the receiver of those order placements. There is also the risk that the order placed by the applicant gets amended in some way before it reaches the syndicate book. As an equity IPO offer period may run for several weeks there is a material period of time that an Investor may be unaware of its commitment/exposure to a wrongly placed or received order.

It would be more efficient and provide greater transparency to the investor for these orders to be placed electronically in the same way secondary market orders are placed. From the asset manager's perspective, this would also provide the benefit of a fully audited, time-stamped order generation process that would have had to have cleared an asset manager's pre-trade compliance checks to ensure no breach of mandate or risk control before it could be sent to the deal manager.

3 Scope

The scope of this document is the electronic transmission to and receipt of allocations from the syndication desk. The best practice recommendations focus on the following areas within the IPO application process:

- Availability of market standard symbology
- Order Routing / Addressing
- Order Duration
- Placing multiple limit orders (Stepping)

4 Guidelines

4.1 Symbology

One of the key requirements for the electronic transmission of orders is the availability of official market standard security identifiers such as Tickers, ISIN, SEDOLs and CUSIPs. These symbols may be created well in advance of the offer period. It is recommended that at the start of the offer period for a new issue that all the market identifiers are made available and published to investors. **These identifiers must be made available at least five business days prior to when the deal closes.**

4.2 Order Routing / Addressing

For “Point-to-Point” communication *(see Diagram 5.1)*, FIX order messages will be sent by the buy-side to the broker designated as the “Booking and Billing Agent”. If required, the buy-side firm may need to populate the FIX order messages’ TargetSubID (57) or TargetLocationID (143) with a broker-specified value, to ensure that these messages are properly directed to the broker’s syndicate desk.

For “Multi-broker Deal Hub” communication *(see Diagram 5.2)*, FIX order messages will be sent by the buy-side to the deal hub without designating a specific broker. The deal hub will expose / route the order to the “Booking and Billing Agent”, as well as to the other brokers in the syndicate. After the deal prices (executes), the deal hub will send a “Partial Fill” Execution Rpt to the buy-side specifying the “Booking and Billing Agent” within ExecBroker (76 or 452=1, depending upon FIX version). The buy-side firm will book and perform post-trade communication with the ExecBroker.

4.3 Order Duration

While a buy-side firm’s FIX orders may typically be “Good For Day” orders (expire at the end of the day), all IPO-related orders will be “Good Till Cancelled”. The buy-side will populate the FIX order message with TimeInForce of “Good Till Cancelled” (59=1). Brokers must ensure that IPO orders do not auto-expire until the deal closes. Once the deal is executed and allocated, any residual IPO order quantity is no longer valid (eg not valid/executable in a secondary market). Brokers should send FIX “Done for the Day” (150=3, 39=3) or “Unsolicited Cancel” (150=4, 39=4) Execution Rpt messages, after sending any applicable fills.

4.4 Stepping (Multiple Limit Orders)

If the buy-side firm is willing to buy a set amount of the IPO offering at a single price, then one FIX limit order is sent. However, if the buy-side firm is willing to buy one amount at one price, and more at a better price, then multiple FIX limit orders will need to be sent.

To illustrate (also known as “Exclusive Step Order”):

- Willing to buy 100,000 at price of 10.00
- Willing to buy a total of 150,000 (an additional 50,000) at a price of 9.75
- Willing to buy a total of 275,000 (an additional 125,000) at a price of 9.50

Then the buy-side would send 3 FIX New Order Single messages:

- ClOrdID = <<*FIRST_ORDER*>> OrderQty = 100,000, Price = 10.00
- ClOrdID = <<*SECOND_ORDER*>> OrderQty = 50,000, Price = 9.75
- ClOrdID = <<*THIRD_ORDER*>> OrderQty = 125,000, Price = 9.50

If the deal is executed at a price of 10, then the broker would send a fill (Execution Rpt) against <<*FIRST_ORDER*>>.

If the deal is executed at a price of 9.75, then the broker would send a fill (Execution Rpt) against <<*FIRST_ORDER*>> and a fill against <<*SECOND_ORDER*>>.

If the deal is executed at a price of 9.50 or better, then the broker would send a fill (Execution Rpt) against <<*FIRST_ORDER*>>, a fill against <<*SECOND_ORDER*>>, and a fill against <<*THIRD_ORDER*>>.

Cancel and Cancel/Replace (prior to deal closing) – Different scenarios:

Once sent to the broker, each FIX limit order has a ‘life’ of its own, and must be cancelled or adjusted (via Cancel/Replace) independently. The following illustrates different scenarios:

a) No longer willing to buy any quantity at a price of 9.50, then the buy-side would send a FIX Order Cancel Request against <<*THIRD_ORDER*>>, resulting in no impact to <<*FIRST_ORDER*>> or <<*SECOND_ORDER*>> (would be in for a total of 150,000)

b) No longer willing to buy any quantity at a price of 9.75, then the buy-side would send a FIX Order Cancel Request against <<*SECOND_ORDER*>>, resulting in no impact to <<*FIRST_ORDER*>> or <<*THIRD_ORDER*>> (would be in for a total of 225,000)

c) Decided to change the price of their middle tier (50,000 @ 9.75) to 9.80, then the buy-side would send a FIX Order Cancel/Replace Request against <<*SECOND_ORDER*>> with OrderQty = 50,000, Price = 9.80 (would remain in for a total of 275,000)

d) Decided to increase the quantity they were willing to buy at 10.00 from 100,000 to 500,000, then the buy-side would send a FIX Order Cancel/Replace Request against

<<*FIRST_ORDER*>> with OrderQty = 500,000, Price = 10.00 (would be in for a total of 675,000)

e) Decided to shift 60,000 from a price of 9.50 to a price of 9.75, then this affects two orders. The buy-side would send a FIX Order Cancel/Replace Request against <<*THIRD_ORDER*>> with OrderQty = 65,000, Price = 9.50 and would send FIX Order Cancel/Replace Request against <<*SECOND_ORDER*>> with OrderQty = 110,000, Price = 9.75 (would remain in for a total of 275,000)

Alternatively, the buy-side firm could send FIX Order Cancel Requests for each of the (three) orders – clearing all orders – followed by FIX New Order Single message(s) for the new set of desired order(s).

4.5 Strike Price ‘Value Orders’

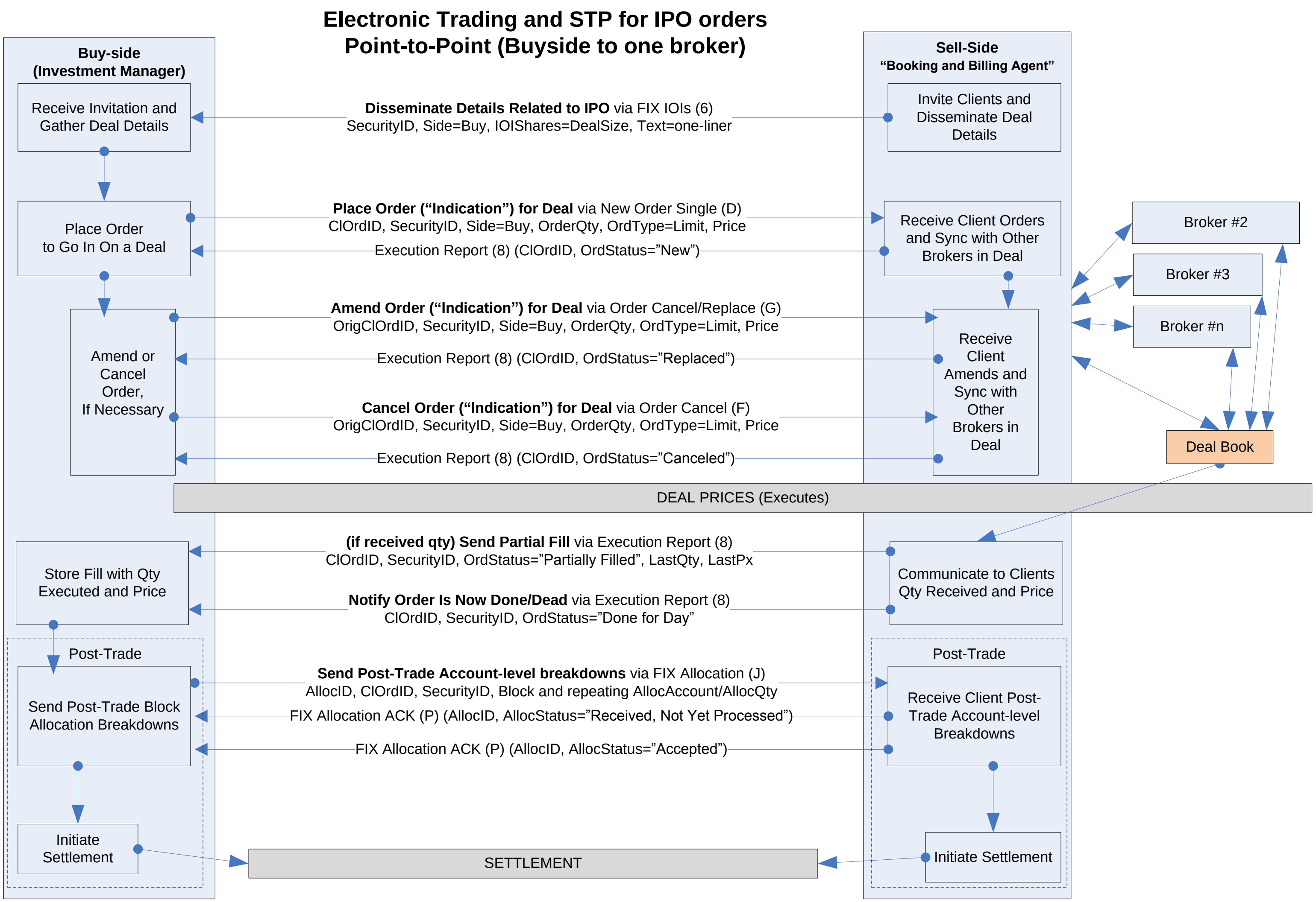
A buy-side firm may express their order as a monetary value (versus share quantity) to execute at the IPO’s strike price. The buy-side will populate the FIX order message with CashOrderQty (152) instead of OrderQty (38), and the value in CashOrderQty (152) will be the value in Currency (15).

4.6 Disseminating Details Related to the IPO

Sell-side firms (or their IPO deal management platform) may wish to disseminate deal-specific details to the buy-side. The FIX IOI (MsgType=6) message is the recommended FIX message to support this. The details can be sent as a short textual message within the Text (58) field of the IOI message. The symbology (Symbol (55), SecurityID (48), SecurityIDSource (22)) fields must be populated to facilitate proper recognition and processing by the buy-side. Side (54) should be populated with 1 (Buy) and IOIShares (27) should be populated with the deal size. Price (44) can be populated with the deal price, once established. Use cases include announcing deal calendar changes (eg when deal opens in terms of order taking, formally announced, postponement, etc), which brokers are ‘book runners’ for the deal, book size, and deal price range changes.

5 Diagrams

5.1 Point-to-Point



5.2 Multi-broker Deal Hub