FIA

Drop Copy Recommendations

Introduction

"Drop Copy" is a powerful risk management tool that provides market participants with near real-time copies of trade reports and messages related to orders. Recognizing the importance of promoting best practices in risk management, the Futures Industry Association established a working group of principal trading firms, brokers, and exchanges to discuss how to best use, standardize, and enhance the value of Drop Copies across trading venues. These recommendations were developed specifically for venue-provided Drop Copies but could apply to any transaction regardless of asset class or instrument.

The working group recognizes that systems employed by market participants and trading venues vary widely in how they are designed and operated and the products they cover. Therefore this document does not attempt to recommend specific policies, procedures, or implementation timelines. Instead, these recommendations are put forth as agreed-upon principles that the global financial industry needs to work toward implementing. In addition, the working group recognizes that these recommendations must be considered in the context of the regulatory and self-regulatory structures in which individual markets operate.

Definition of Drop Copy

Drop Copy is a report that summarizes a participant's execution activity on a trading venue and is generated in as close to real-time as possible. Drop Copy feeds are different from cleared trade feeds in that they (a) may contain additional information to aid a participant's risk management, such as order state changes, modifications, rejections and cancellations, and (b) are generated at the point of execution, rather than when the trade has been cleared. At present, the contents and method of delivery for Drop Copy feeds vary by trading venue.

In technical terms, exchanges and other trading venues are "producers" of Drop Copies. Executing and clearing brokers and trading firms are "consumers" of Drop Copies. This document will use this terminology to generically describe trading venues and market participants.

Drop Copy as a Risk Management Tool

Robust risk management policies and procedures are critically important aspects of any market participant's trading operation. To aid in the implementation of and adherence to those policies and procedures, many trading venues have provided their participants with Drop Copy feeds. Consumers of Drop Copies have different methods of leveraging Drop Copy functionality to meet their own unique risk management needs. The following examples illustrate possible uses of Drop Copies by Consumers:

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[1] The Futures Industry Association is the leading trade organization for the futures, options and over-the-counter cleared swaps markets. FIA's mission is to be the global thought leader, advocate and educator for futures and swaps that are centrally cleared. FIA works to facilitate cross-border trading, monitors and provides input to regulators around the globe and works toward standardization of practices and policies to create greater market efficiency. It strives to preserve the system of free and competitive markets and works to protect the public interest through adherence to high standards of professional conduct and financial integrity to promote public trust and confidence in the cleared markets. FIA engages in regulatory and legislative advocacy that is based upon comprehensive analysis, member consensus and industry best practices.

- Consumers may use Drop Copies for real-time trade reconciliation. At a minimum, they typically compare the information provided by a Drop Copy in real-time with the trade notifications received from production trading sessions. This comparison process allows firms to reconcile their electronic trading activity with an independent source of exchange-provided trade notifications. In the event a discrepancy is found, the responsible party or parties may take action immediately to address trading risk, determine the cause of the discrepancy, and resolve any issues.

- Consumers may also use Drop Copies to supplement their risk management process. Trading firms, for example, may have multiple trading sessions on a single trading venue. Drop Copies provide market participants with the ability to consolidate multiple trading session reports into a single data feed. This consolidated data feed may then be used by operational staff to monitor a participant's trading activity.

- Brokers that provide their clients with sponsored access[2] to trading venues may use Drop Copies to monitor the trading activity of those clients. Brokers use Drop Copy to monitor:

    o When trading activity approaches limits established by the sponsoring broker.

    o Unusual changes in intraday trading activity that may indicate a potential problem at the client.

    o Activity that may increase positions in accounts that are in a "liquidation only" state.

All events would lead to a discussion with the client to understand the situation and take appropriate action.

Drop Copy Recommendations

While Drop Copy is a powerful risk management tool today, the working group believes its value can be enhanced by additional functionality and standardization across trading venues. Risk management tools such as Drop Copy should not be viewed by venue providers as a competitive advantage; rather it is important that market participants have tools that are standardized across markets in order to use them to their maximum benefit.

General Recommendations:

- Drop Copy systems should be designed, developed, and supported to a standard commensurate with other critical production systems.

- The connectivity, hardware, and software associated with Drop Copies should be as independent of the production trading infrastructure as possible. This enables resilient reporting of trading messages in the event of the loss of connectivity on a production trading session.

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[2] When a non-member entity gains direct access to the market using the membership of the broker/dealer.

Recommendations for Producers of Drop Copy:

- Drop Copies should be available for all trading venues and products whenever technologically practicable.

- Trade reports and other information provided by Drop Copy should be disseminated to the consumer in real-time.

- Data security procedures should require Brokers to notify trading venues of the parties that are authorized to subscribe to the Drop Copy service and what data they are authorized to receive.

- Within a single trading venue, Drop Copy and production trading sessions should use the same connectivity and messaging protocols, especially where the trading session protocol is designed to be high speed and low latency. However, if the technical requirements of the trading venue prohibit a single messaging protocol then the venue should consider using the FIX Protocol to provide a standard API and messaging format for Drop Copy (see Appendix for a list of FIX tags suitable for Drop Copy).

- The Drop Copy service should be able to respond to a "resend" request to allow the Consumer to recover lost data on an on-demand basis.

- The Drop Copy service should not be seen as a revenue generating product for its providers. Good risk management benefits all market participants. Producers should promote the use of Drop Copy by providing it to Consumers at no charge or a nominal fee which covers the provider's costs.

- Producers should strive to provide more information in their Drop Copy feeds including details of the original order leading to an execution, as well as all amendments, cancellation requests, rejections, and leg fill reports[3] for all order activity.

Recommendations for Consumers of Drop Copy:

- Consumers are encouraged to use venue-provided Drop Copy services as part of their production trading operation from the onset of active trading.

- Consumers are encouraged to reconcile the trading activity reported by Drop Copy with the trading activity reported over production trading sessions in real-time. Relevant trading and support staff should be notified and the proper corrective action should be taken if there is a persistent and unexplained discrepancy.

- Consumers may use Drop Copies for out-of-band risk monitoring. If the Consumer has post-trade risk checks, it may also run those risk checks on Drop Copy output to add redundancy to its risk management procedures.

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[3] A spread order may be entered as a single order, but the execution reported as two trades—an execution of the buy side of the spread order and an execution of the sell side of the spread order.

Industry Wish List

The working group recognizes that there are many ways to enhance existing Drop Copy functionality to meet the unique risk and operational needs of the diverse collection of market participants that exist today. Due to economical, technological, and operational constraints, some of those enhancements may not be practicable. Below is a list of such enhancements that the industry may wish to consider with the understanding that they may not be immediately implementable.

- We would like Drop Copies to be available on all types of trading venues, including designated contract markets, alternative trading systems, electronic crossing networks and swap execution facilities.

- We would like Drop Copies from trading venues to contain all fields necessary to comply with the regulatory rules regarding the archiving of trade reports governing the venue, asset class, and product type being traded.

- We would like Drop Copies to be provided by Executing Brokers for all client activity where possible using the FIX Protocol as the API and messaging format. Drop Copies are a means of delivering timely reports of trades to those clients that can consume them.

- We would like Clearing Brokers to be able to provide cleared trade feeds to clients in as near real-time as possible using the same format as Drop Copy to allow easy integration of both execution and clearing into the same client risk management system if required.

Conclusion

Drop Copies are currently offered by many trading venues and have become a critical component in the risk management processes of brokers, trading firms and end users. The purpose of these recommendations is to promote the wider adoption of Drop Copy functionality as a proven risk management tool, as well as promoting increased standardization of Drop Copy functionality within the constraints of individual marketplaces. The working group also proposes that Drop Copy functionality can be extended to provide additional features to meet a range of requirements, and we look forward to the next step in the evolution of Drop Copy functionality.

To further promote the use of Drop Copy, FIA plans to survey trading venues to determine which venues currently provide or plan to provide Drop Copy functionality, the components of their offering and the protocol they use. The results will be incorporated with these recommendations at a later date.

APPENDIX

The following table is based on the FIX Protocol standard for conveying information regarding orders and executions. It includes a list of the fields within an order message that are considered critical to reconciliation and risk management processes. This list may be used as a tool to guide the Producers of Drop Copies in their effort to provide additional information regarding order status.

Message Fields (based on the FIX Protocol)	
Session-related Messages	Logon
	Business Message Reject
Session Details	Session ID
Order Details	Client Order ID (or any unique customer order ID)
	Sender Sub ID (or any unique trader ID)
	Original Client Order ID
	Original Sending Time
	Order Time Stamp
	Side
	Order Type
	Order Price
	Order Quantity
	Stop Price (if applicable)
	Time In Force
	Execution Instruction
	Expire Date (if applicable)
	Expire Time (if applicable)
	Max Show Size (if applicable)
	Min Order Quantity (if applicable)
	Effective Time (if applicable)
	Customer or Firm
	Order Capacity (principal or agent)

Instrument Details	Instrument/Symbol
	Maturity Month/Year (if applicable)
	Strike Price (if applicable)
	Put or Call Marker (if applicable)
Booking Details	Account
	Account Type
	All fields related to fill assignment and clearing instructions
Execution Report Details	Order Status (all types supported – New, Filled, Partially Filled, Cancelled, Rejected, etc.)
	Reject Reason (if applicable)
	Trade Date
	Exchange Order ID
	Exchange Execution ID
	Last Quantity
	Last Price
	Cumulative Quantity
	Leaves Quantity
	Average Price
	Execution Time Stamp
	MultiLeg Reporting Type (if applicable)
Miscellaneous Details	Currency (if applicable)
	Quote ID (if applicable)
	IOI ID (if applicable)
	Covered or Uncovered (if applicable)
	Manual or Automated (where applicable)
	Country of Origin (where applicable)
	Long/Short (if applicable)
	Open or Close (if applicable)

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