



FIA EU Operations Committee Best Practice Recommendations for Trading Venue/CCP Average Price functionality – a consequence of MiFIR indirect clearing account structures

1. Background to the issue

The introduction of the additional separate accounts for MiFIR indirect clearing (see Delegated Regulation (EU) 2017/2154) has highlighted a particular issue for an executing broker / clearing member to be able to continue to provide average pricing for asset/fund managers who place orders for execution on behalf of multiple funds under the manager's control.

At present the positions of all such funds (which are the clearing clients of the clearing member) are held in the same omnibus account at the CCP and therefore the executing broker and the clearing member have the flexibility – dependent upon the order and trade particularities – to use the exchange/CCP average pricing functionality or to average price within its own books and records since the original trade fill prices and lot numbers will continue to be able to reconcile against the trade fills and resultant positions held in the omnibus account at the CCP. In practice, whilst the positions of the underlying funds may be held in the same client omnibus account at the CCP, the underlying funds do not necessarily have a direct contractual arrangement with the clearing member itself and may be clients of an affiliate of the clearing member.

Following the introduction of the requirements under the Regulation, these different contractual arrangements of the asset manager's individual funds can give rise to scenarios where some of the funds may be direct clients of the clearing member and/or indirect clients under different direct clients (i.e. the funds are clients of separate affiliates of the clearing member with each affiliate being the direct client of the clearing member). Accordingly, in circumstances where the asset manager gives an order to an executing broker where the resultant fills are to be cleared in different accounts of a clearing member (in order to meet the segregation requirements of the Regulation) or in accounts across clearing members, it is difficult to facilitate this efficiently without requiring labour intensive interventions in trade reconciliations (and without requiring cash residuals to be reconciled across accounts or passed to other clearing members) using internal average pricing calculations.

The FIA EU Operations Committee has therefore confirmed that the most appropriate means of resolving this issue is through the introduction of average pricing functionality by Trading Venues/CCPs.

It should be noted that this issue would also be relevant where individual funds are held in separate ISAs, but a number of firms have mitigated the problem by introducing contractual restrictions on providing average pricing where funds are held in ISAs. This same contractual restriction would not be possible or acceptable for asset managers in circumstances where the issue is caused as a result

of the decision by the clearing member to contract directly or indirectly with the fund and not as a consequence of a decision made by the asset manager.

2. Baseline assumptions for Trading Venue/CCP average price functionality

(a) Firms will not aggregate orders from separate order providers (asset managers) into a single order to be submitted to a venue for execution, nor would a firm aggregate its proprietary orders with client orders.

(b) Firms cannot discriminate between multiple fills for clips of a single order and multiple fills for multiple orders, given that the venue generated order ID do not necessarily reflect separate orders of the client.

(c) Average pricing can take place either at the executing broker or at the clearing member level and that splitting of the average price trade could take place at both the executing broker and then again at the clearing member level.

(d) Intraday margin calls would, where the average price trade has not been assigned to the end position keeping account, be handled at the asset manager suspense account level within the clearing member's books and records.

3. Best practice recommendations for Trading Venue/CCP average pricing functionality

(a) Either the Executing Broker or the Clearing Member, needed the ability to average price fills relating to the orders given on behalf of multiple funds (asset managers);

(b) Average pricing should be available both via the API and manually via the GUI;

(c) There should be no restriction on the firm to average price multiple fills from multiple orders (given that the venue generated order ID did not necessarily reflect the separate orders of the asset manager client, e.g. where the original order has been split into separate clips for execution). It will be up to firms to ensure the aggregation of multiple fills from multiple orders takes place in line with any regulatory requirement.

(d) Trade fills should also hold the original order ID and the client order reference;

(e) Firms need the ability to give up average price trades across clearing members and across position accounts

(f) The expected messages from the venue/CCP in response to an average price submission would be (i) the original trade fills (street fills) with the trade reference of the average price trade; (ii) the reversing of the trade fills (offsetting trades); and (iii) the single average price trade.

(g) The Executing Broker or the Clearing Member, as the case may be, should be able to split and allocate the resulting average price trade.

(h) It should be possible to average price on T+1 and to reverse an average price trade on T+1 (there is an open question as to whether this should be a longer period, recognising the system knocks on impacts for undoing close outs and subsequent changes in open interest and limitations on contracts exercised ahead of expiry).

(i) In the event that a firm needs to cancel/reverse an average price trade which has been given up to other clearing members, it should be possible for the clearing member to click on the relevant

average price trade ID to trigger a request to pull back the average price trades – this should be available both via the GUI or by API.

(j) The cash residual associated with the top average price trade should be visible on the GUI (as it helps confirm the validity of the average price).

(k) The cash residual field/data associated with the average price trade should not be capable of being overwritten by the firm.

(l) In CCP reports the cash residual for each average price trade effected by the firm should be displayed separately rather than being a single number representing the sum of all cash residuals for all average price trades undertaken by the firm.

(m) Where asset managers send their own calculated average prices for multiple orders to the clearing member (e.g. three average prices are received in relation to three orders), the asset manager should also provide the trade fills that comprise each order and associated average price.

(n) The creation of an average price trade should generate a new trade time for that trade.

4. Outstanding matters for further discussion

(i) It is an open question as to whether firms should have the ability to average price multiple average price trades. This should be discussed with Trading Venues/CCPs.

(ii) How should fees associated with average price trades calculated and made available to firms, for example, should the fees be attributed to the average price trade or to the original trade fills of the average price trade?

(iii) The average price trade should be calculated to a standardised number of decimal places, but this causes issues where Trading Venues/CCPs/vendors/firms have fixed length fields with floating decimal places. Accordingly, different length fixed price fields in different systems will produce different results and contracts with high values, e.g. those based on Dow or Yen, will also limit the number of decimal places. Trading Venues/CCPs currently providing average price facilities calculated to seven decimal places.