



DMIST

DERIVATIVES MARKET
INSTITUTE FOR STANDARDS

Consultation Paper: Standard Regarding Average Pricing

June 2023

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1. EXECUTIVE SUMMARY

The Derivatives Market Institute for Standards (“DMIST”) was formed following high volume and volatility in February and March 2020, at the onset of the COVID-19 pandemic. DMIST’s goal is to encourage widespread adoption of standards in the Exchange-traded derivatives industry that will help make markets more efficient, resilient, and competitive for all.

Due to difficulties driven by complexities in the allocation and give-up process, combined with the interdependencies between market participants to process give-up trades, the DMIST Sponsor Board agreed to focus on the give-up and allocation process for its initial standard. This Average Pricing standard supports the first standard issued by DMIST, “Improving Timeliness of Trade Give-Ups and Allocations,” which calls for Clients, Executing and Clearing Brokers to submit and process allocation instructions within 30 minutes of the trade being confirmed or allocation instructions received. This public consultation is intended to initiate a conversation with the global Exchange-traded derivatives industry regarding Average Pricing on central counterparties (CCPs). This standard proposes that all global CCPs adopt standardized Average Pricing functionality and suggests the key components of that functionality.

Standards around Average Pricing will help drive consistency and improve the current order allocation timing issues associated with Average Price order workflows. In addition, standardizing Average Pricing, as proposed, provides the following benefits:

1. Improves operational efficiency
2. Reduces operational, financial and regulatory risk
3. Reduces internal and external technical overhead costs
4. Reduces the amount of Cash Residual transfers required to balance accounts
5. Reduces reconciliation issues on Trade Day +1 (T+1)
6. Improves the overall Client experience

DMIST welcomes comments on this proposed standard from any member of the public. Instructions for submitting comments are also provided below.

Background

One of the issues raised during the consultation process for the 30/30/30 standard was the lack of Average Price functionality across CCPs. Where functionality does exist, it does not follow a consistent or standard approach. This lack of consistency impacts the timeliness of give-ups and allocations and can require manual intervention.

Following the issuance of DMIST's first public consultation paper proposing a standard on "Timeliness of Trade Give-Up and Allocation," a DMIST working group was established to discuss Average Pricing. The working group's objective was to propose a set of minimum attributes for Average Pricing functionality on CCPs.

2. PROPOSED STANDARD

DMIST is proposing that CCPs adopt the minimum standard Average Pricing functionality listed below. The functionality is split into two phases based on prioritization by DMIST's Average Pricing Working Group.

#	FUNCTIONALITY	PRIORITY
1	Average Pricing functionality should be available for all products	Phase 1
2	Average Pricing can be processed via API and CCP GUI	Phase 1
3	No limit on the number of transactions which can be grouped for Average Pricing	Phase 1
4	Both Executing Broker and Clearing Broker can perform Average Pricing	Phase 1
5	Original orders used for Average Pricing are referenced via audit trail (Original Trade Identifiers, Trade References, etc.)	Phase 1
6	Consistent messages, with minimum data fields, are received from the Trading Venue/CCP for Average Price transactions	Phase 1
7	Average Price trade adjustments only permitted by the original party who made the grouping request (any exceptions to be specifically enumerated) including T+1 adjustments	Phase 1
8	Cash Residual field or data is not amendable	Phase 1
9	Minimum number of decimal places to be used for Average Price transactions (including to calculate variation margin (vs end-of-day settlement price))	Phase 1 (minimum of 7-8 decimal places supported) Phase 2 (minimum of 8 decimal places supported)
10	All post-trade functions are permissible on Average Price transactions (splits, give-ups, etc.)	Phase 1
11	Average Price trades available on CCP end-of-day reporting	Phase 1
12	Cash Residuals defined on CCP end-of-day reports	Phase 1
13	Timestamps for allocation and claim for Average Price transactions	Phase 1
14	Support for performing Average Pricing across different trade types, i.e., block and order book transactions, when not prohibited by regulatory authorities	Phase 2
15	Offer Average Price alternative(s) (i.e., Notional Value Average Pricing)	Phase 2
16	Average Price Cash Residual visible on APIs and CCP GUI	Phase 2
17	Cash Residual transfers with Average Price give-up	Phase 2

CONSULTATION QUESTIONS

DMIST welcomes feedback about any aspect of this proposed standard from all areas of the industry. Specifically, DMIST invites feedback from the public on the following non-exhaustive list of questions:

1. Are there advantages to performing Average Pricing off-CCP versus on-CCP?
2. Do you currently use Average Pricing functionality where offered by CCPs? If not, why not? Would you use on-CCP Average Pricing functionality if there were standards surrounding it?
3. Is there an optimal number of decimal places that should be used for on-CCP Average Pricing?
4. What impediments exist for Clients, Executing Brokers, Clearing Brokers, Exchanges, CCPs and Vendors, respectively, to meet the proposed standard?
 - a. Are there certain transaction types of particular concern?
 - b. Are there certain assets classes of particular concern?
 - c. Will delivery and roll periods prove particularly challenging? If so, why?
5. What products would you like to be able to group for Average Pricing purposes? Are there regulatory restrictions in any jurisdictions that prevent grouping certain types of transactions?
6. What additional standards would be helpful to support or facilitate this proposed standard?
7. Are there regional-specific regulatory requirements relating to Average Pricing that need to be considered?
8. What trade-specific attributes (i.e., fees, Tag 1031, etc.) should remain available throughout Average Price processing (even if this creates additional records when grouping by a single Average Price)?
9. How important is it to have CCPs add functionality to allow Executing and Clearing Brokers to prevent Average Pricing?

3. SUBMITTING A COMMENT

Comments are due on or before September 12, 2023. Any member of the public may submit a comment by sending a PDF, Word document or substantive email to info@dmist-standards.org. All comments will be made publicly available [here](#) following submission.

DMIST will not review comments for personal, confidential, proprietary, sensitive, or otherwise protected information before making such comments publicly available. By submitting a comment to DMIST, the submitting party consents to such public posting.

DMIST reserves the right, without obligation, to review, redact, and/or remove any comment that it considers to be inappropriate, offensive, or improper, in its sole discretion. By submitting a comment to DMIST the submitting party agrees to abide by and be bound by the Terms of Submission, available [here](#), which will constitute a binding legal agreement between you and DMIST.

4. QUESTIONS/FURTHER INFORMATION

If you have questions about this proposed standard, wish to know more about DMIST, or have an interest in joining the initiative, further details can be found [here](#). You may also contact Don Byron at dbyron@fia.org or Natalie Tynan at ntynan@fia.org for more information.

5. GLOSSARY

Capitalized terms used in this document are defined as follows:

“Average Price System (APS)” - A module used to bunch or group designated transactions, in order to create an Average Price and Cash Residual values for the group, prior to allocating to end accounts and clearing firms. In order for trades to be designated for APS processing, the APS type trade tag needs to be populated at time of execution.

“Average Pricing” - A process which allows for allocation of the entire order at one mathematically weighted “averaged” price. Average pricing eliminates the likelihood that some customers are allocated trades with prices better than or worse than the average.

“Cash Residual” – The **residual** amount is the monetary difference between the total value of the transactions in the APS group at their original trade prices, and the total value of the replacement transaction at the rounded **Average Price**.

“CCP” – A central counterparty is a financial institution that interposes itself between counterparties to trades that have been executed at an Exchange. It becomes the buyer to every seller and the seller to every buyer and takes on the counterparty risk and provides clearing and settlement services to its customers/members.

“Clearing Broker” – An individual or organization that accepts a Completed Order from a Client or an Executing Broker (on behalf of a Client) and clears such Completed Order with the CCP.

“Client” – An individual or organization, typically an end-user, asset manager, proprietary trading firm or similar party, who initiates an order to buy or sell a product in the Exchange-traded market.

“Completed Order” – An order to buy or sell a product in the Exchange-traded market that has resulted in: (1) a complete fill of the full quantity on a working order; (2) a partial fill of the full quantity on a working order where the remaining quantity is cancelled, or (3) a partial fill of the full quantity on a working order where the remaining quantity expired at the close of the trading day for the product.

“Exchange” – A financial exchange where participants can trade (buy/sell) standardized products as defined and listed at the exchange. An exchange will have a relationship with a CCP to facilitate the clearing and settlement of the trades.

“Executing Broker” – An individual or organization that accepts an order from a Client to buy or sell a product in the Exchange-traded market, but does not clear the Completed Order.

“Notional Value Average Pricing” - a method of allocating trades to a group of accounts that have been pre-selected by the account manager. The notional value is calculated by **multiplying quantity times price**. The group only allows allocations priced between (and including) the highest and lowest prices of the trades in the group and will not allow the total of the allocation quantities to be greater than the group quantity.

APPENDIX A

DMIST OVERVIEW

DMIST was formed as an outgrowth of industry conversations following high volume and volatility in February and March 2020, at the onset of the COVID-19 pandemic. DMIST's ultimate goal is to encourage widespread adoption of standards in the Exchange-traded derivatives industry that will help make markets more efficient, resilient, and competitive for all.

There are two levels of participation in DMIST: (1) the Sponsor Board members who consider and approve standards; and (2) the Ambassador level members, including technology vendors, who are subject matter experts and who help identify, develop, and calibrate standards for the Sponsor Board's approval. For more information on participating in DMIST, please visit our [website](#).

For more information regarding the history and development of DMIST, please see [Modernising the Listed Derivatives Workflow: A Blueprint for Change \(November 2021\)](#) and [DMIST's 2023 Annual Progress Report](#).

DMIST STANDARD PROCESS

The process that DMIST follows for a proposal to become a standard is:

- **Step One:** Proposed standard is received from any member of the public (including, but not limited to, Sponsor Board Members or Ambassadors).
- **Step Two:** Sponsor Board determines whether the initial proposal meets certain required criteria (e.g., the submission contains sufficient requisite information, the proposed standard addresses a topic that is considered in scope for DMIST's consideration, the proposed standard relates to a topic that would significantly benefit the industry to standardize).
- **Step Three:** DMIST forms Ambassador Working Group(s) for review and consideration of the proposed standard.
- **Step Four:** Sponsor Board meets to consider the feedback of the Ambassador Working Group(s) and votes to publish proposed standard for public comment.
- **Step Five:** DMIST issues the proposed standard for public comment.

- **Step Six:** At the end of the comment period, the Ambassador Working Group(s) used to vet the standard as initially proposed will meet to review and consider the comments.
- **Step Seven:** Sponsor Board votes to approve the standard based upon feedback and recommendations from the Ambassador Working Group(s). Once approved, the standard is considered final and is published.
- **Step Eight:** The success of DMIST requires commitment to transparency with regards to adoption and implementation of standards. Each final, approved standard will specify transparency expectations for Sponsor Board Members regarding whether or not they have chosen to adopt or implement such standard. Each final approved standard must also specify metrics, to be measured on an ongoing basis, related to implementation, adoption, usage, and/or effectiveness.

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