

Modernising the Listed Derivatives Workflow: A Blueprint for Change

November 2, 2021

Message from Walt Lukken, President and CEO of FIA



Dear Members of FIA and our Industry—

When Covid abruptly shut down the world economy in March 2020, the global futures and options markets experienced record trading activity and extreme volatility. Our markets worked well and were able to handle this enormous stress. However, it exposed several long-standing bottlenecks in the trading and clearing infrastructure that must be addressed.

As a result, FIA embarked on an initiative to review our post-trade settlement process. FIA engaged with its global committees to study lessons learned, created an industry Taskforce, and hired JDX Consulting to gather the views of global exchanges, clearinghouses, vendors, and customers. This consensus-driven approach has led us to the release of today's Blueprint.

The Blueprint —authored by JDX —is based on interviews with 25 firms and more than 60 industry participants in various roles. The Blueprint makes several recommendations aimed at making our industry more efficient.

The Blueprint recommends:

- Forming an independent Markets Standards Body (MSB) to oversee the development of certain market standards and best practices in the trade and clearing lifecycle
- The standards body have proper governance that broadly represents industry stakeholders with its deliberations open and transparent to the marketplace
- The standards body adopt a consensus-driven agenda that is developed and supported broadly by the industry

Now is the time for action. FIA will be working with its Taskforce and other market stakeholders in the coming weeks and months to consider these recommendations and build support for this initiative.

I encourage you to read the attached Blueprint or visit FIA.org to learn more about how you can get involved.

Sincerely,
Walt Lukken

Executive Summary

- JDX Consulting was engaged in September 2021 to work with the **FIA and its industry-wide Taskforce on Standards** to investigate whether the adoption of industry standards would be benefitted by the **creation of an independent, collaborative, open-source standards body** to provide long-term value to market participants.
- Views and opinions were sought from **25 organisations** and more than **60 people** representing a **diverse cross-section of the market segments and roles** that make up the listed derivatives ecosystem.
- It is clear that the **collaborative work over the past year has been successful** in driving **consensus on the need for common standards of data, process and protocol**. Developing these standards will not be easy, but the real **challenge will be one of encouraging adoption** of those standards by the diverse industry participants.
- Largely the participants agree that there is a **need for an independent markets standards body** that encourages collaboration and adoption of standardised recommendations. Participants felt that for this body to be successful it should be a **distinct entity** and must work with its members to address **4 critical success factors**:



- This report sets out the **blueprint** for the conditions of success for an independent markets standards body and is supported by recommendations about how to **launch, substantiate and operationalise** the body. It is recommended that alongside the current focus on **give-up, allocation and average pricing processes**, adoption will be encouraged with the drafting of:



Full industry front to back workflow model



Quantification of costs and risks borne by current processes



Agreement on common metrics to be reported by parties

Project Background

Context



Reflecting on the experience of a severe backlog of unallocated/misallocated trades in March 2020, **FIA wants to create an industry that is more effective, resilient, competitive, and innovative** for all sectors and participants in the listed derivatives markets.

FIA wants to improve processes to create **“effective fire prevention rather than effective firefighting”** that will help the listed derivatives industry migrate to a more efficient and resilient operating environment while complying with regulatory obligations. This exercise must meet these objectives and ensure the industry is set up to support immediate and visionary change with meaningful impact for all stakeholders.

Objective



FIA wants to test the hypothesis that **trade and clearing standards developed by the industry and housed in a new industry-governed standards body** will be an effective means of transforming the industry through gaining the participation and confidence of all sectors in adopting common processes, data and technology standards with which to transform pre-, at, and post-trade data, lifecycle events and workflows.

JDX Mandate



JDX Consulting was asked to:

- Execute a series of **one-to-one interview workshops** with a representative sample of industry stakeholders; and
- Create a report ahead of Expo that acts as a **functional blueprint** for the industry to develop standards of best practice and includes **recommendations for an approach** to lead and coordinate the development and adoption of those standards.

Contributors



Clients (Buy Side)

4 Firms 6 Participants

Executing & Clearing Brokers

7 Firms 29 Participants

Exchanges & CCPs

5 Firms 7 Participants

Trade Associations

2 TAs 5 Participants

Vendors

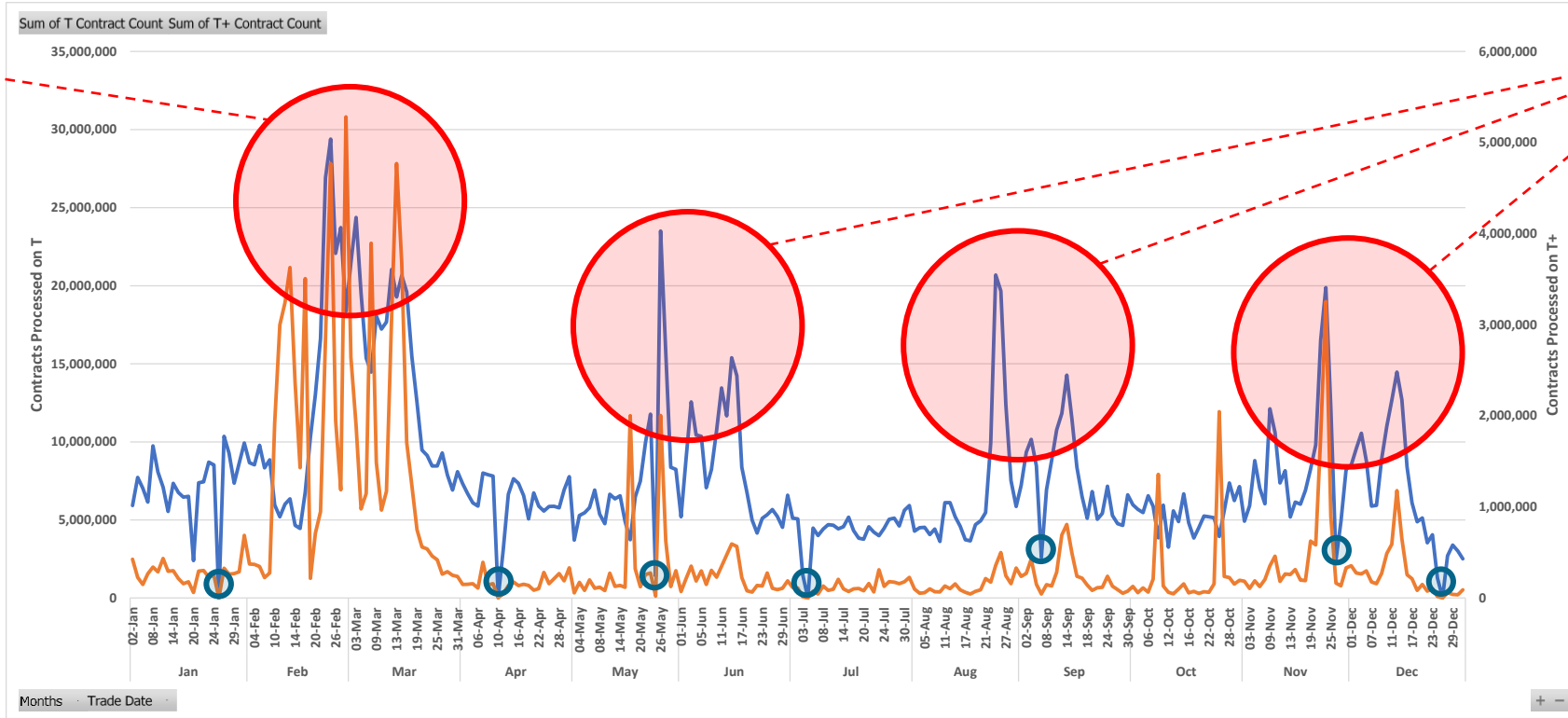
7 Firms 16 Participants

NB: Excludes FIA

March 2020: Record Trading Activity Triggered Processing Bottlenecks

2020 Daily Contract Volumes Allocated on Trade Date versus Contracts Not Allocated on Trade Date

Record volumes lead to 15 times more contracts *not allocated on trade date*.



Even routine spikes in volumes have led to **non-allocated trades and backlogs**. Interviews indicate that firms allocate extra resources during these periods of **heightened operational risk and inefficient manual processing**.

Key:

- Trade date Allocations
- T+ Allocations
- US Public holiday



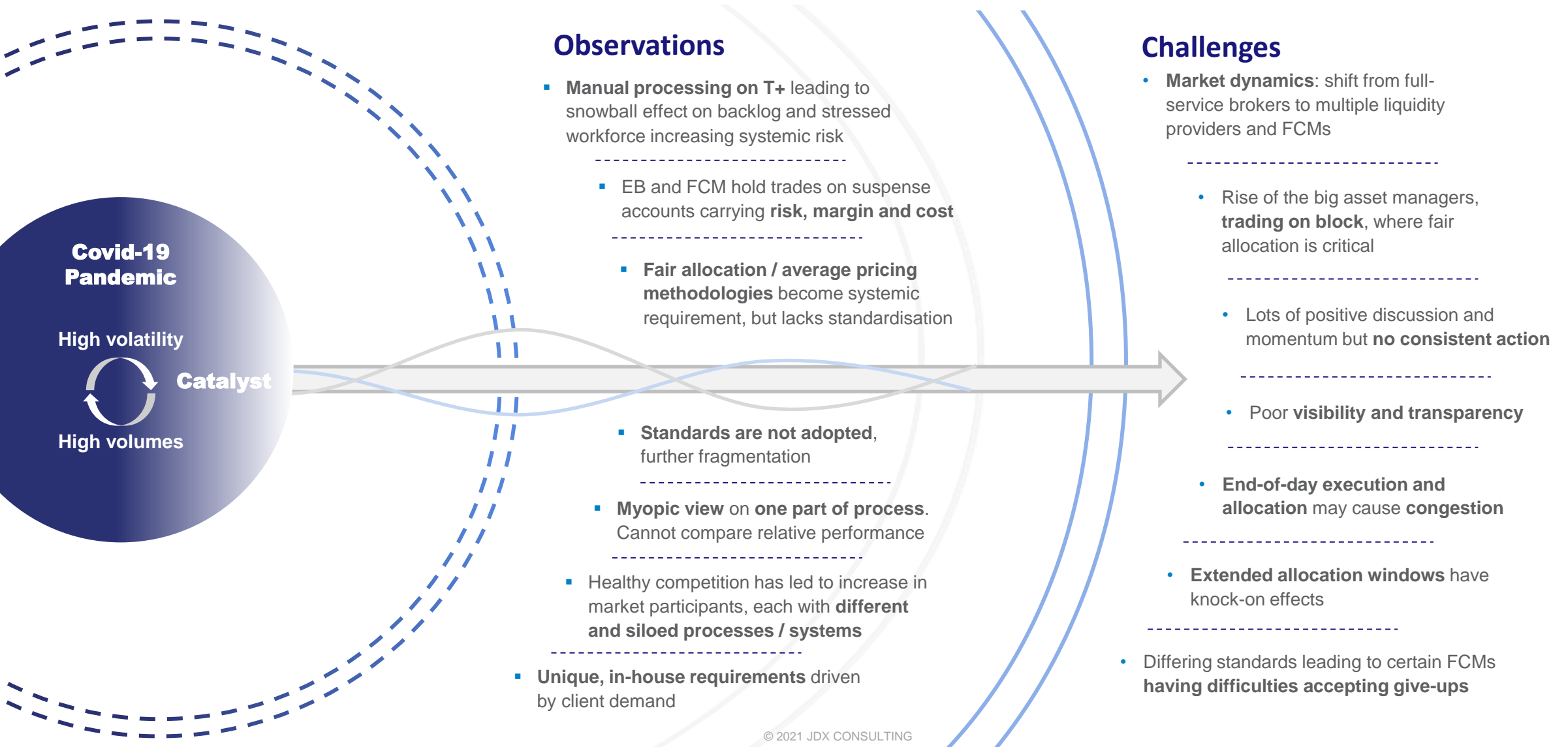
Data Source: FIA Tech. As no comprehensive global source of this data exists, we present a proxy of consolidated reporting by exchange and CCP members of FIA Tech Atlantis.

Observed Challenges

Market participants reported **sustained high volatility and unprecedented trading volumes** of up to 5 times average daily volumes in February and March 2020.

The majority of those interviewed reported **no technology outages or throughput challenges**. Instead, the problems observed were systemic across the listed derivatives workflow.

COVID-19 proved to be a catalyst, but not the root cause, of the challenges observed.

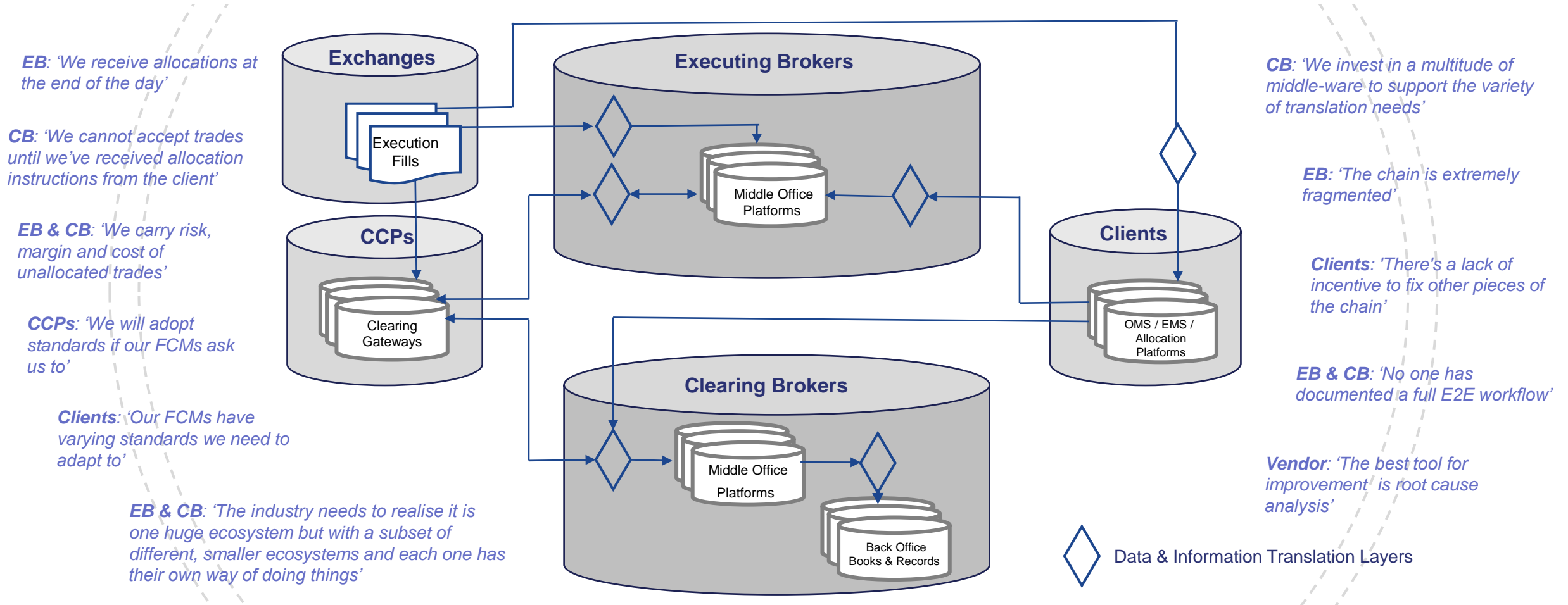


The Systemic Challenge of a Fragmented Workflow

Market participants commented that there has been a **piecemeal evolution of the exchange-traded derivatives workflow** over the past 30 years.

Individual firms have made efforts to drive **in-house standardisation** to align their own processes, data and technology to **drive operational excellence, and reduce cost and risk**.

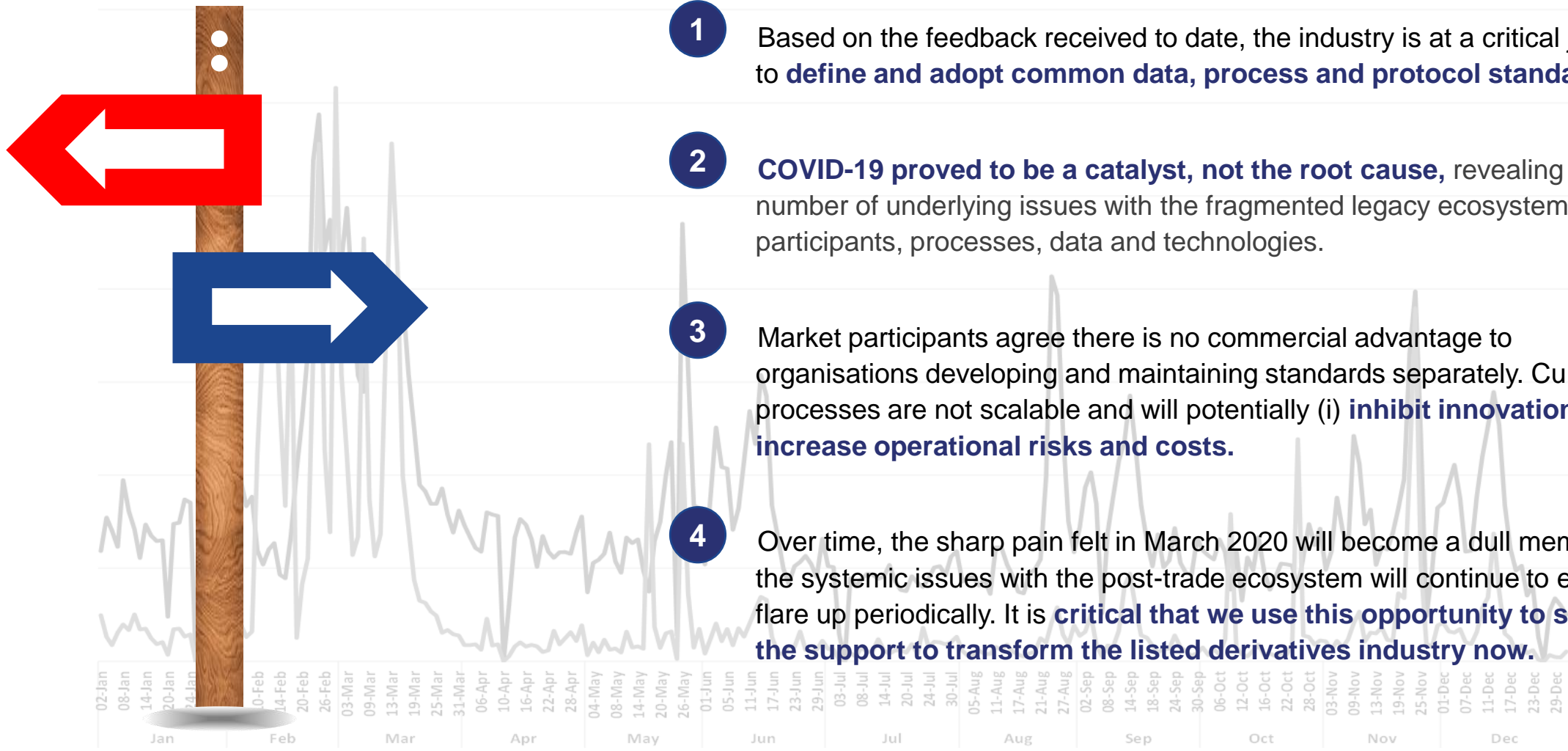
As a result, processes are neither standard across the ecosystem nor within peer groups. The industry operates using a **complex fragmented workflow with multiple potential points of failure** and **differing commercial dynamics** between parties.



This is a single simplistic representation of the workflow: it does not reveal the full map of potential points of failure and the dynamics between participants

Critical Juncture – Call for Action

Why Now?



1

Based on the feedback received to date, the industry is at a critical juncture to **define and adopt common data, process and protocol standards**.

2

COVID-19 proved to be a catalyst, not the root cause, revealing a number of underlying issues with the fragmented legacy ecosystem across participants, processes, data and technologies.

3

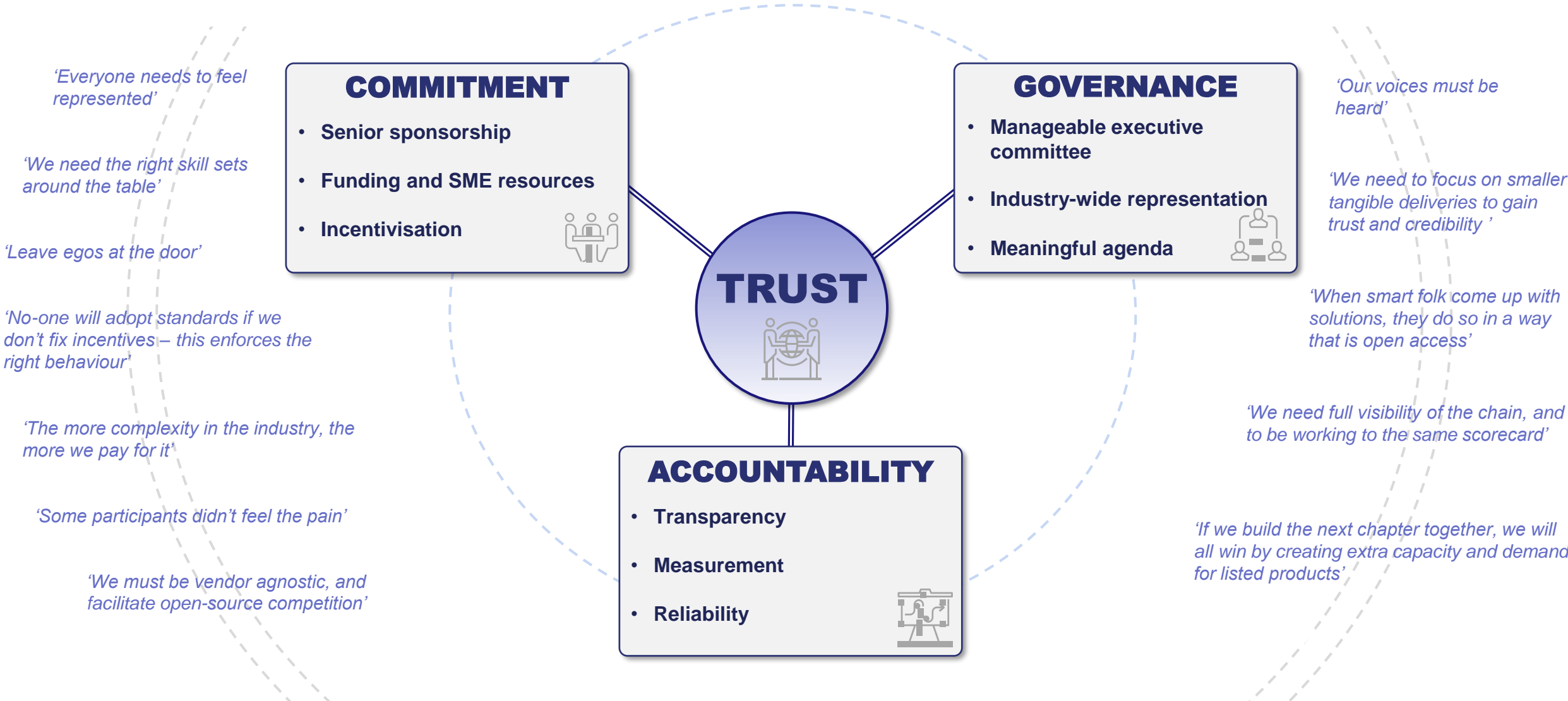
Market participants agree there is no commercial advantage to organisations developing and maintaining standards separately. Current processes are not scalable and will potentially (i) **inhibit innovation**; and (ii) **increase operational risks and costs**.

4

Over time, the sharp pain felt in March 2020 will become a dull memory, but the systemic issues with the post-trade ecosystem will continue to exist, and flare up periodically. It is **critical that we use this opportunity to secure the support to transform the listed derivatives industry now**.

Conditions for Success: Develop Collective Trust

Market participants have identified three elements to develop the necessary trust for successful collaborative development and adoption of market standards



Recommendations



To enable the industry to collectively tackle the challenges highlighted, and move forward in unison, we propose three recommendations.

1 Form a Markets Standards Body

Recommendation 1: Form a Markets Standards Body

To achieve success, the recommendation is to create an independent, open-access Markets Standards Body (MSB) designed to meet the criteria to encourage further cross-industry engagement leading to widespread adoption of standards of best practice

COMMITMENT

- Industry Outreach
- Quantify the risks and costs
- Document the end-to-end workflow

GOVERNANCE

- Participation Agreement
- Code of Conduct
- Consultation Papers

ACCOUNTABILITY

- Establish industry metrics
- Agree level of transparency
- Establish mechanism to encourage adoption and implementation

MSB

'We already have the right ingredients: common objectives, available metrics, and the will & interest of industry participants

We now need the right institutional structure to create and optimise our chances of success, without which we may make progress but lose momentum'

Global Head ETD and OTC clearing

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2 Develop a Collaborative & Meaningful Agenda

Recommendation 2: Develop a Collaborative & Meaningful Agenda

Based on the output of various working groups over the past year, JDX confirms majority consensus on these initial recommended priorities for the Markets Standards Body. Focus on them will lead to an improvement in the timeliness of trades clearing into the correct end account on top-day and reconciling with the CCP.

Priority	Opportunity	Objectives	Benefit Statement
1. Trade allocation process	Streamline and create standards and consistency across the industry	Reduce operational workload and operational risk. Better provision of trade status data.	Allocations sent in a timely manner will benefit the entire ecosystem from a cost and risk perspective
2. Trade give-up process	Reduce complexity since there are multiple give-up possibilities at CCPs and various settlement timings / windows	Agree on give-up standards and practices, outline clearing closing times and identify areas to harmonise	Enable a better understanding of settlement time flexibilities and increase transparency
3. Average pricing methodologies	Allows fair and equitable allocations by those managing multiple accounts	Agreed general framework on the design and implementation of APS models resulting in fewer variations in functionality across market participants	Remove complexity for brokers and clients to allocate trades using average pricing allocations, reducing reconciliation issues and trade breaks

Future Areas of Focus		
Industry metrics	Trade messaging protocols and APIs	Vendor interoperability
Trade reference data	Pre-trade activities	Porting
Client reference data	Real-time processing	Margin operations and collateral management

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3 Establish an Industry Call to Action Roadmap

Recommendation 3: Establish an Industry Call to Action Roadmap

The industry must feel included in this call to action in developing a Markets Standards Body and agenda. FIA must create a representative governance structure, make the case to the industry and secure early adopters and champions to optimise the chances of this initiative succeeding.

Getting Governance Right:

The Markets Standards Body must have a governance structure that is open and representative of the industry to encourage broad adoption of the developed standards.

Get Involved and Learn:

The industry must be educated on the benefits and cost savings of such an initiative. FIA's development of its operations and standards webpage at FIA.org will encourage market participants to get involved.

Recruiting Champions:

It is important to cultivate early adopters and champions that are influencers for the broader marketplace. Visit FIA.org for more information on how to participate.

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Launch								
Create Governance Structure								
Educate Industry								
Commitment of Participants								

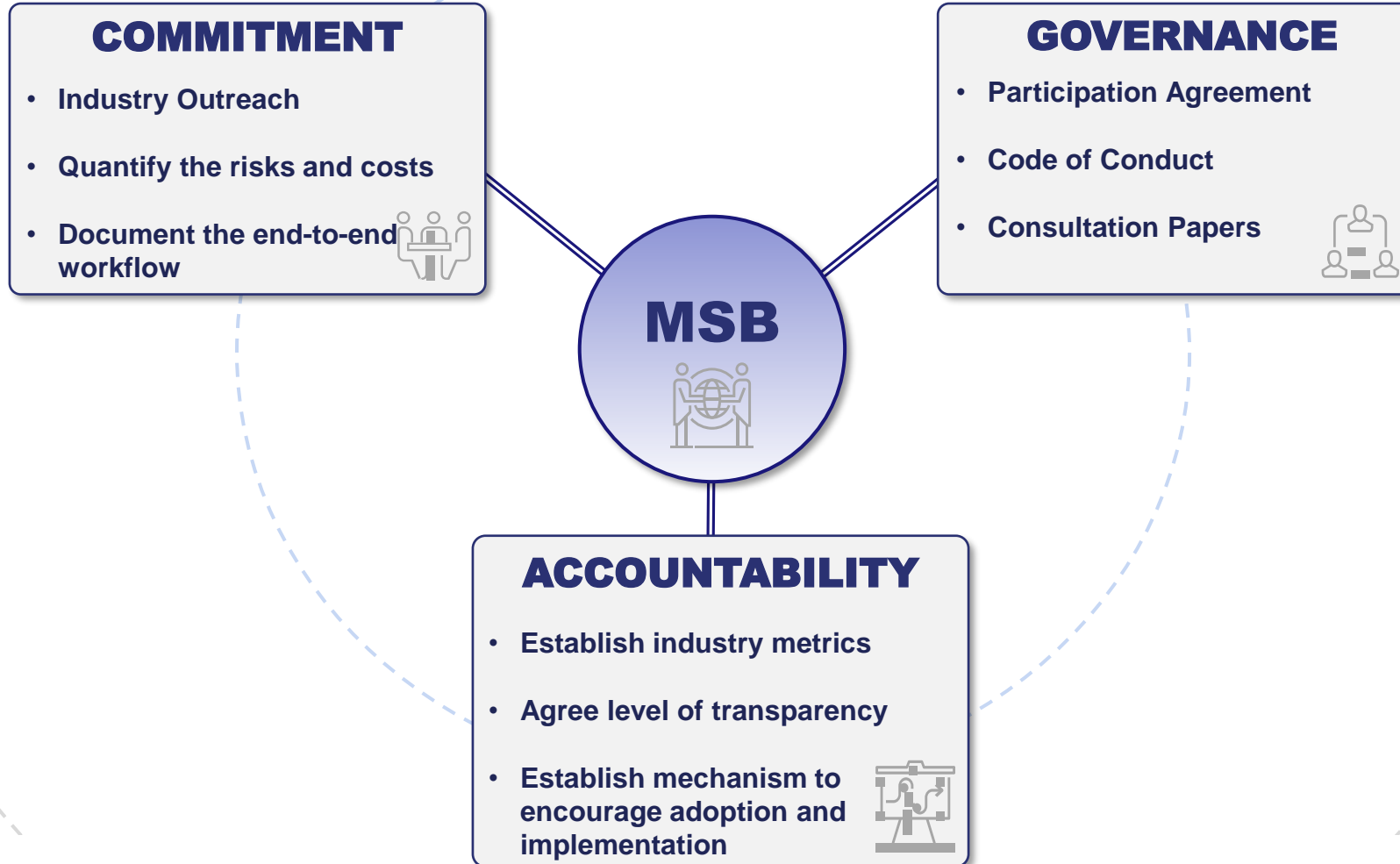
We anticipate FIA outreach to secure early adopters and champions, and incrementally commit interest from broader industry participants.

FIA Conference
Boca Raton

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Global Head ETD and OTC clearing

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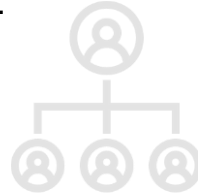
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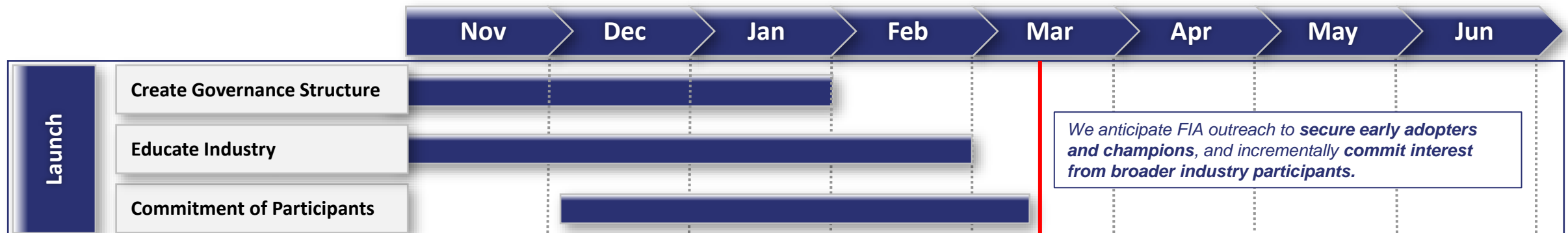
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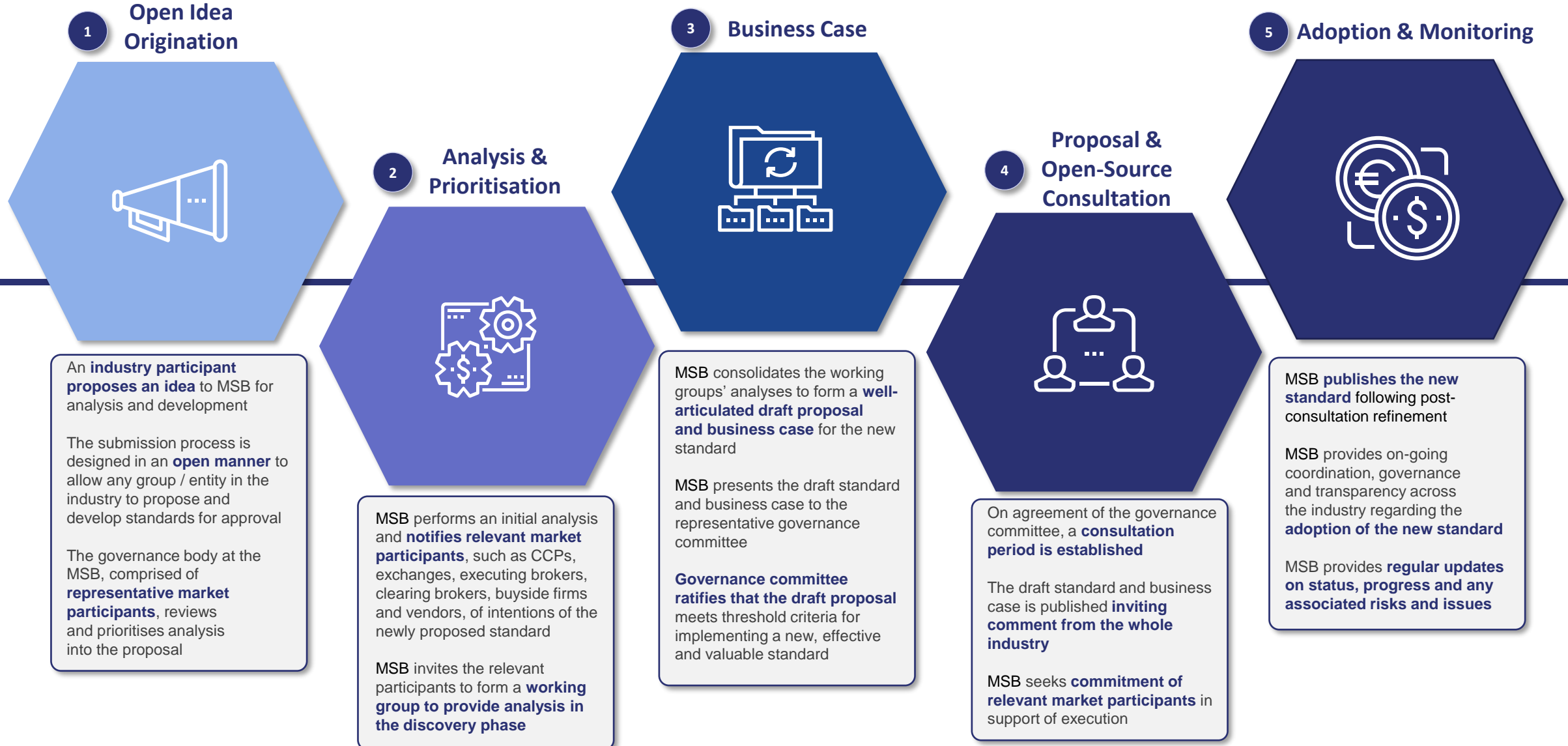
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Markets Standards Body in Action

A Markets Standards Body would operate five phases from **idea origination** through to the execution and **adoption of industry standards**.



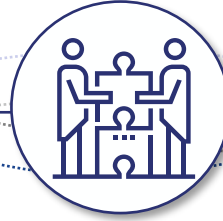
For more information...



Read more here

Visit our website:

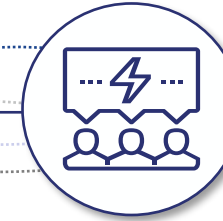
<https://www.fia.org>



Get in touch here

Contact:

StandardsTaskforce@fia.org



Look out for further industry outreach

Register interest here:

<https://www.fia.org/taskforce-open-industry-standards>