

Consultation Paper for Self-Match Prevention Standard

May 1, 2025

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1. EXECUTIVE SUMMARY

The Derivatives Market Institute for Standards ("DMIST") was formed to encourage widespread adoption of standards in the exchange-traded derivatives industry that will help make markets more efficient, resilient, and competitive for all.

It is widely understood that all market participants have a role in maintaining market integrity. In the last decade, controls that assist in the prevention of unintentional self-match activity have proved to be invaluable tools in preventing self-matches and avoiding regulatory fees. More exchanges are offering market participants functionality to allow firms to tailor self-match prevention to their individual needs and reduce inadvertent self-trading.

Self-matching occurs when a buy order is matched with a sell order when both orders have common beneficial ownership. While most self-matching is inadvertent, it frequently invites exchange scrutiny and subsequent fines. In addition, the lack of standardization of SMP functionality is challenging for brokers and their customers to manage due to the variety of approaches exchanges have implemented for self-match prevention.

Currently, there are multiple ways that SMP is implemented across the industry, but there is no uniformity or consistency across the offerings. By adopting a standardized approach to Self-Match Prevention, the industry can enhance market integrity, streamline operations, avoid regulatory fines, and better serve the needs of all market participants.

Quantifying Impact

The biggest impact of not having uniform self-match prevention is regulatory fines assessed which can reach millions of dollars annually across major global exchanges. Additionally, where no centralized self-match prevention is offered by an exchange, market participants build their own utilities. Bespoke solutions lead to operational and technological overhead.

Benefits

Standardization would provide the following benefits to Executing Brokers:

- Overall reduction in inadvertent wash trades
- Improved operational efficiencies (for example, enabling multibroker access and API that firms can write to)
- Increased awareness across the industry of self-match prevention features/configuration
- Ability to leverage industry-wide knowledge base to create standards that mitigate latency issues that may occur with custom/one-off approaches.

DMIST is seeking comments on adoption of an industry-standard which would set out recommendations around functionality/features for Self- Match Prevention. DMIST welcomes comments on this proposed standard from any member of the public. Instructions for submitting comments are provided in Section 5.

2. PROPOSED STANDARD

DMIST concludes that true efficiencies for Self-Match Prevention are only realized with large-scale adoption of a set of functionalities that has been analyzed by impacted market participants.

DMIST recommends publishing a standard that focuses on areas of standardization for both exchanges and market participants.

Areas for Exchange Standardization

The following functionality table outlines the details of this new, proposed standard as it relates to Exchanges:

#	Functionality Type	Details
1	Cross Broker	Trading participants should be able to register an SMP ID that can be used across multiple trading platforms and/or brokers so that all their aggregated flow can be considered when preventing self-matched transactions. Result: This common identifier is exchange specific but usable across a single or multiple brokers.
2	Exchange Action Flexibility	 Trading participants should have flexibility to determine what happens when an order placed with a registered SMP ID enters the market¹ including the ability to: 1. Cancel the resting order. 2. Cancel the aggressive order. 3. Cancel both orders. 4. No action (used if the provision of an ID is made mandatory on a particular trading facility but no SMP is expected in this case).
3	Exchange Rules on Exchange Based SMP	SMP should be kept as optional. Mandatory use should be limited to certain segments such as sponsored access flow and where applicable by regulation. Some proprietary and ISV implementations might be better suited for certain trading segments, therefore not required in those instances. Venues should also disclose how SMP cancels and rejects are counted towards the venues order to trade ratios.

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#	Functionality Type	Details
4	Exchange Configuration Flexibility	Exchanges should offer some optionality on the level of granularity for the configuration of Self-Match Prevention and allow users to configure at the exchange.
		Current best practices offer configuration at the firm level and at either the account level or Market Segment Gateway level, for example.
5	Exchange SMP ID Flexibility	Exchanges should provide flexibility when setting the SMP ID including the ability to have <i>n</i> number of IDs at a given exchange and the ability to provide alpha-numeric IDs. <i>Note</i> : At present some exchanges limit the SMP ID value range to 255 numeric characters which is regularly exceeded by many brokers. Additionally, some exchanges have a set format for SMP ID while others allow free text.
6	Latency Configuration	Exchanges should be mindful that adding latency for the use of utilizing SMP by their trading participants could discourage usage. Therefore, it's recommended that venues deploy SMP in a manner that doesn't introduce any additive latency.
7	Product Coverage	Exchange SMP for future exchanges should cover all products offered including but not limited to Futures, Spreads, Options on Futures and outside AMRS single stock futures and single name and index options.
8	Order Types and Behaviors Covered	 a) Exchanges should publish which order types are in scope for SMP. b) Exchanges should specifically outline any order types that are not in scope for SMP such as implied pricing. c) Clarification should also be provided where implied pricing exists (e.g., on a spread) as to how self-matching will be managed. For example, if two spreads 1) Mar-Jun and 2) Jun-Sept for the same executing broker, how will the exchange protect against self-matching of the June legs.

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#	Functionality Type	Details
		 d) Clarification is also expected on whether orders with price limits should be allowed if the price limit levels would prevent any possible match. For example, if non-conflicting price limits are allowed the behavior of order modifications should be explained, specifically if a legal resting order at a price limit has the price moved in such a manner that it would conflict with another resting order with SMP
		configured, is one of the orders cancelled, or is the price change disallowed?

Consideration for Market Participants

The following table outlines considerations market participants should consider for a new, proposed standard:

#	Consideration	Details
1	Configuration	Market participants should have procedures on how and where they configure SMP on the markets where they trade. As one venue specifies: "Firms should document the rationale for the level of STPF set within their organization and be able to produce such documentation upon request from the Exchange."
2	Monitoring	Market participants should be aware that when SMP IDs are applied to orders from multiple different traders, groups of traders or Automated Trading Systems, working orders may be cancelled by the SMP process and suitable ongoing monitoring of live trades in the markets to appropriately handle such a situation is necessary.
3	Risk Controls	Market participants should strongly consider the impact of SMP message cancel and rejects especially as they develop risk controls for their non-SMP rejects or in their consideration of venue specific order to trade ratios.

Potential Challenges

- 1. **Reduced Flexibility in Execution**: SMP can limit the flexibility of executing complex trading strategies. For instance, traders who use high-frequency trading (HFT) strategies might find SMP restrictive as it prevents their buy and sell orders from matching, potentially disrupting their trading algorithms.
- 2. **Operational Complexity**: Implementing SMP requires additional operational and technical adjustments. This can be cumbersome and costly, especially for firms with sophisticated trading systems.

3. CONSULTATION QUESTIONS

Questions for Executing Brokers

- 1. Are there any data points that you require for a self-match prevention utility that are currently missing from the functionality table?
- 2. Do you believe an industry standard will reduce the number of wash trades?
- **3.** Are there any limitations or barriers that would prevent you from adoption a new SMP standard? For example, do you have internal systems that have been built to accommodate the lack of a standard that would need to be decommissioned?

Questions for Exchanges

- 1. What obstacles exist that would prevent or complicate your adherence to the proposed standard?
- 2. How will you measure adoption of SMP?
- 3. What limitations do you have on the products where SMP is offered?
- 4. How will you manage SMP on synthetic order books?
- 5. How will you manage implied pricing?
- 6. How will you manage non-conflicting price limits? For example, if non-conflicting price limits are allowed the behavior of order modifications should be explained, specifically if a legal resting order at a price limit has the price moved in such a manner that it would conflict with another resting order with SMP configured, is one of the orders cancelled, or is the price change disallowed?
- 7. How will you manage order modifications?

Questions for All

- 1. Are there benefits of SMP standardization for Buy Side, Clients, Executing Brokers, Exchanges, or CCPs that are not already identified in the proposed standard?
- 2. What additional standards may be helpful to support or facilitate this proposed standard?
- 3. Are certain products/product types of particular concern?
- 4. What implications are there with latency if implemented?
- 5. What impediments exist for clients, executing brokers, and exchanges respectively, to adopt the proposed standard?
- 6. What metrics would assist clients, executing brokers, and exchanges in analyzing where they currently stand regarding the proposed standard? What difficulties exist in collecting these metrics?
- 7. What additional standards would be helpful to support or facilitate an SMP standard?
- 8. Would a universal order tracer identifier help the adoption of this standard? For example, when attempting to unwind a suspected self-match, is it difficult to identify which orders are impacted without a universal identifier?

Additional Comments

DMIST welcomes any comments that you may have that were not covered in the above consultation questions.

4. GLOSSARY

"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, takes on the counterparty risk and provides clearing and settlement services to its customers/members.

"Clearing Member" – A firm meeting the requirements of, and approved for, clearing membership at the Exchange.

"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.

"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.

"Self-Match Prevention" – A risk management tool that prevents orders with the same underlying beneficial owner from matching against each other. Also called "SMP."

"Wash Trade" – A form of trading where an entity is simultaneously buying and selling the same financial instrument. Wash trades can leave a false impression of liquidity.

5. SUBMITTING A COMMENT

Comments are due on or before June 30, 2025. 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 on the DMIST web site 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.

6. 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 <u>here</u>. You may also contact Don Byron at <u>dbyron@fia.org</u> or Staci Parrish <u>sparrish@fia.org</u> for more information.

7. APPENDIX

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 Modernizing 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.

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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 a standard. Each final approved standard must also specify metrics, to be measured on an ongoing basis, related to implementation, adoption, usage, and/or effectiveness.



2001 K Street, NW Suite 725, North Tower Washington, DC 20006

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