

May 2016

Asia Trader Forum

IOI Code of Conduct and Best Practice Memorandum

Enclosed in the documentation below is an effort to consolidate and clarify the overall position of the ATF with regards to the presentation, categorization, communication and distribution of IOIs in Asia.

Whilst we acknowledge that the points herein are not fully exhaustive or all-encompassing, by presenting ATF member expectations' of IOIs in Asia we aim to help steer the industry in a common and consistent direction.

We believe that this will:

- i. improve the effectiveness of the IOI platform as a liquidity sourcing tool
- ii. provide the industry with a superior level of execution
- iii. result in more positive outcomes for the buyer, seller and broker alike.

Where Applicable

These guidelines should only be applied in accordance with the local laws, rules and regulations of the country/exchange in question, and we underscore that not all the suggestions made here are applicable in all markets. As such, the details in this document should not come into conflict with any requirements applicable under local laws and regulations.

Scenario 1 - includes:

- All agency orders, where crossing would occur on that basis. No facilitation except odd lots
- All riskless principal (agency style) swap flow. No facilitation except odd lots
- Orders should be updated or cancelled real time to ensure that they reflect the correct position

Natural Flag = Yes

Comments – Distinguish between **agency** and **riskless principal**

Price – populate if there is limit

Scenario 2 - includes:

- Orders that are genuine facilitation desk type unwinds of actual positions on the risk book
- Orders should be updated or cancelled real time to ensure that they reflect the correct position
- Should consider providing detail on the type of unwind, e.g. price or VWAP

Natural Flag = Yes

Comments – highlight that it is **facilitation unwind**

Price – populate if there is a limit

Scenario 3 - includes:

- Risk orders that are genuinely being initiated to hedge positions on the risk book
- Orders should be updated or cancelled real time to ensure that they reflect the correct position
- Should consider providing detail on the type of initiation, e.g. price or VWAP

Natural Flag = No

Comments – highlight that it is **facilitation risk hedge**

Price – populate if there is limit

Scenario 4 - includes:

- Positions that the risk book wish to initiate unrelated to any other positions that risk may have
- Orders should be updated or cancelled real time to ensure that they reflect the correct position

Natural Flag = No

Comments – highlight that it is **facilitation initiation**

Price – populate if there is limit

List of guidelines we feel reflect best market practices:

- a. Access to view IOIs should only be granted to those that allow their orders to go out as IOIs.
- b. Refresh times on IOIs should be under 15 minutes.
- c. Segregation between Natural and Non-Natural IOIs is paramount.
- d. Where a broker cannot populate Bloomberg Tag 104, they should attempt to populate the comment field with relevant order details eg Fix Tag descriptions.
- e. An incoming query to an existing IOI should never be sent back out as an IOI without a discussion with the client.
- f. Maximum and minimum IOI sizes should be sensible with regards to ADV of the stock, and efforts should be made to tailor share quantities to the client.
- g. Short-sell IOIs need to be indicated.
- h. There is an expectation that “in touch with” should only be used when a client’s interest to trade has been refreshed, and it should not be used as a default IOI where the broker has recently traded the stock for that client.
- i. ADR/GDR create/redeem volume is fine to be advertised.
- j. ETF create/redeem volume is fine to be advertised.
- k. Rounding of indicated share quantities within a 10% tolerance is acceptable.
- l. Grey Market traded volume is fine to be advertised.
- m. Electronic flow is never to be advertised as high touch flow.
- n. Brokers should utilize a tiered system for differing client types.
- o. Brokers should offer clients the option to reflect their own IOIs back to them.

In addition to the 4 scenarios' that set out to distinguish between Natural and Non-Natural, the following Fix Tag valid values are regarded as appropriate for use and might be required:

- 'A' All or none
- 'B' Market On Close (MOC) (held to close)
- 'C' At the close (around/not held to close)
- 'D' VWAP
- 'I' In touch with
- 'L' Limit
- 'M' More behind
- 'O' At the open
- 'P' Taking a position
- 'Q' At the Market (previously 'Current Quote')
- 'R' Ready to trade
- 'S' Portfolio shown
- 'T' Through the day
- 'V' Versus
- 'W' Indication - Working away
- 'X' Crossing opportunity
- 'Y' At the Midpoint
- 'Z' Pre-open

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