

AFME/IA FRAMEWORK FOR INDICATIONS OF INTEREST (IOIs)

FINAL



THE OBJECTIVE OF THIS AGREEMENT IS TO STANDARDISE THE DEFINITION OF IOIS AND DOCUMENT A CODE OF CONDUCT AROUND THEIR USE. WE BELIEVE THE TRUST THIS WILL ENGENDER IS REQUIRED TO ALLOW IOIS TO FULFIL THE IMPORTANT ROLE THEY PLAY IN HELPING INVESTORS FIND LIQUIDITY. PARTICIPANTS SHOULD HAVE A JUSTIFIED EXPECTATION THAT PRE- AND POST-TRADE BEHAVIOUR AROUND EACH CATEGORY OF IOI CONFORMS TO THIS STANDARD. THE OBLIGATIONS ARISE FOR BOTH THOSE PARTICIPANTS WHO ISSUE IOIS AND THE RECIPIENTS THAT REACT TO THEM.

FOR EXAMPLE, IN THE 'GOLD STANDARD' OF A 'C:1 - CLIENT NATURAL' IOI OR A 'C:2 - CLIENT NATURALWORKING' IOI, RECIPIENTS REACTING TO THE IOI SHOULD EXPECT TO BE MATCHED ONLY WITH CLIENT LIQUIDITY, WITHOUT ANY POST TRADE UNWIND CREATING DIRECT MARKET IMPACT. NEW ORDERS MAY LEAD TO ACTIVITIES NOT RELATED TO OR NOT ANTICIPATED BY PREVIOUS IOIS. THE ONUS IS ON THE BROKER TO COMMUNICATE IN A TIMELY MANNER WITH THE CLIENT, SUBJECT TO REASONABLE OPERATIONAL CONSTRAINTS, ABOUT ANY CHANGING CIRCUMSTANCES IN ORDER TO ENSURE IOIS REMAIN UP TO DATE AND CONSISTENT WITH THE FRAMEWORK. THIS AGREEMENT DOES NOT CONSIDER APPLICABILITY OF LOSS RATIO AS THIS IS A BILATERAL COMMERCIAL ISSUE BETWEEN PARTIES.

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FRAMEWORK

WHOSE POSITION WILL MOVE IF IOI TRADED AGAINST	CLIENT OF IOI ISSUER			FIRM ISSUING IOI (HOUSE)			
	IOI Class: SubClass	C:1	C:2	P:1	H:1	H:2	H:3
	IOI Name	CLIENT NATURAL (BLOCK)	CLIENT NATURAL (WORKING)	POTENTIAL	UNWIND	POSITION WANTED	MARKET MAKING
SCENARIO 1 Client block order in the OMS or a block order received verbally or electronically such that it would be recordable from a regulatory perspective, and includes any wrapper, i.e. cash, swap, ETF, etc		✓	✓	✓	✓	✓	✓
SCENARIO 2 Client working order in the OMS or a working order received verbally or electronically such that it would be recordable from a regulatory perspective, and includes any wrapper, i.e. cash, swap, ETF, etc		✗	✓	✓	✓	✓	✓
SCENARIO 3 “In Touch With” IOIs where there is no firm underlying order but there is a reasonable expectation of interest from a specific client.		✗	✗	✓	N/A	✓	✓
SCENARIO 4 Unwind of existing inventory which may include client facilitation, risk or CRB		N/A	N/A	N/A	✓	✓	✓
SCENARIO 5 Any proactive hedging activity that does not include unwind of existing inventory		N/A	N/A	N/A	✗	✓	✓
SCENARIO 6 Proactive liquid provision/ Non-natural risk trading		N/A	N/A	N/A	✗	✗	✓
MAY BROKER REVERSE TRADE IN MARKET?		✗	✗	✗	X/✓	X/✓	✓

LEGEND

- N/A** Scenario is not applicable to this class of IOI
- ✓ Yes
- X/✓ No: unless client notified prior to reversal
- ✗ No

FRAMEWORK

METHODOLOGY

- 1** There are two classes of IOIs: those arising from positions held, or wanted, by clients (IOI classes “C” and “P”) or internally (IOI class “H”).
- 2** Those two IOI classes are divided into subclasses.
- 3** Firms may raise an IOI in a lower sub class than the scenario qualifies for. E.g.: A scenario qualifying for an H:1 IOI may seek a counterparty via an H:2 or H:3 IOI if the IOI issuer does not want to advertise their exposure.
- 4** Firms may not advertise in a higher subclass than the scenario justifies. E.g. A firm may not advertise a potential client order (P:1) as if they had a firm order (C:1/C:2).
- 5** Firms may raise differentiated IOIs such that recipients get differing indications of class, subclass, price or size. However, it is not permissible to exaggerate/inflate the size of trading intent in C:1, C:2, H:1 or H:2 IOIs.

DEFINITIONS

Client:
A party external to the House issuing the IOI.

GUIDELINES

While the purpose of this agreement is to bring some standardisation and discipline to the IOI regime this agreement shall have no legal force. The consequence of errors in classification will be between the parties and relationship based, not legal, in nature.

Key to the success of standardisation is the adherence to it by a broad range of participants. Guidelines on adherence to the categories and their related code of conduct are set out here.

C:1

A client should be able to seek verification (from IOI publisher's management/compliance) that, for any C:1 IOIs received, there was a corresponding live client order for at least the advertised size prior to the IOI being generated. Resulting trades are expected to be of a riskless nature.

C:2

A client should be able to seek verification (from IOI publisher's management/compliance) that, for any C:2 IOIs received, there was a corresponding live client order for at least the advertised size prior to the IOI being generated. Resulting trades are expected to be of a riskless nature.

P:1

Post-execution, a client should be able to seek verification (from IOI publisher's management/compliance) that, for any P:1 IOIs received and executed against, there was by time of the execution, an opposing specific client order. Resulting trades are expected to be of a riskless nature. If the anticipated client order does not materialise, and the broker elects to commit capital, this must be disclosed prior to execution.

H:1

Brokers will be responsible for ensuring that the size of the IOI reflects the actual house position in the relevant business unit and should not inflate the size of the IOI. The presumption is that there is no intent to immediately replace the position without notification, however, brokers may provide additional granularity to the category and may offer bilateral post trade commitments. Brokers will also offer clients a feedback mechanism.

H:2

Brokers will be likely be sourcing liquidity and therefore may advertise the size of IOI they wish, however, clients can expect the broker to honour the size of IOI shown. The presumption is that there is no intent to immediately unwind the position without notification, however, brokers may provide additional granularity to the category and may offer bilateral post trade commitments. Brokers will also offer clients a feedback mechanism.

H:3

No enforcement required