

# The Investment Association / AFME IOI Proposal

AGREED



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 FULFILL THE IMPORTANT ROLE THEY PLAY IN HELPING INVESTORS FIND LIQUIDITY. PARTICIPANTS SHOULD HAVE A JUSTIFIED EXPECTATION THAT PRE- AND POST- TRADE BEHAVIOR AROUND EACH CATEGORY OF IOI CONFORM 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, 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.

Neither Association makes any representation or warranty, express or implied, in relation to the Code of Conduct, including without limitation as to its suitability, completeness or fitness for purpose. Under no circumstances shall either of the Associations be liable for any loss or damage, whether direct or indirect, arising out of or in connection with the use of this Code of Conduct

# FRAMEWORK

## PHASE 1 [AGREED]

		PLEASE SEE GUIDELINES	
WHOSE POSITION WILL MOVE IF IOI TRADED AGAINST		CLIENT OF IOI ISSUER	
IOI Class: SubClass	IOI Name	C:1 CLIENT NATURAL	P:1 POTENTIAL
<b>SCENARIO 1</b> Client order in the OMS or an order received verbally or electronically such that it would be recordable from a regulatory perspective, including Block Working And includes any wrapper, i.e. cash, swap, ETF, etc		✓	✓
<b>SCENARIO 2</b> “In Touch With” IOIs where there is no firm underlying order but there is a reasonable expectation of interest from the specific client		✗	✓
<b>SCENARIO 3</b> Unwind of client facilitation or house position via alternative stock		N/A	N/A
<b>SCENARIO 4</b> Position wanted, same stock		N/A	N/A
<b>SCENARIO 5</b> Hedging of client facilitation or house position via alternative stock		N/A	N/A
<b>SCENARIO 6</b> Proactive liquid provision/ Non-natural risk trading		N/A	N/A
<b>MAY BROKER REVERSE TRADE IN MARKET?</b>		✗	✗

### LEGEND

- N/A** Scenario is not applicable to this class of IOI
- ✓ Yes
- ✗ No

# GUIDELINES

## RULES

- There are two classes of IOIs: those arising from positions held, or wanted, by clients ( IOI class “C”) or internally (IOI class “H”)
- Those two IOI classes are divided into subclasses
- 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.
- 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)
- It is not permissible to exaggerate/inflate the size of trading intent in C:1, H:1 or H:2 IOIs
- At the point of execution there is a presumption that an H:2 would not be reversed on trade date, but this may be shortened subject to informing the other party of the reason for doing so earlier.

## DEFINITIONS

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

## GENERAL

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. At the outset it is expected that a broad consensus of parties on both sell and buy sides should agree all categories and sign up to the first stage enforcement of categories C:1 and P:1 and their related conduct. A statement of intent from signing parties is envisaged at this stage. Any enforcement in proposed categories H:1, H:2, and H:3 is to be revisited some reasonable time after implementation with a view to developing guidelines in this sub class.

## FIRST PHASE GUIDELINES

### 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.

### 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.

## SECOND PHASE GUIDELINES

### H:1 / H:2

Subject to further discussion.

### H:3

No enforcement required

# FRAMEWORK

## PHASE 2 [SUBJECT TO FURTHER CONSIDERATION]

WHOSE POSITION WILL MOVE IF IOI TRADED AGAINST	PLEASE SEE GUIDELINES		REMAINS SUBJECT TO FURTHER CONSIDERATION AND DISCUSSION IN RELATION TO SCOPING AND ENFORCEMENT		
	CLIENT OF IOI ISSUER		FIRM ISSUING IOI (HOUSE)		
	IOI Class: SubClass	C:1	P:1	H:1	H:2
IOI Name	CLIENT NATURAL	POTENTIAL	UNWIND	HEDGE	MARKET MAKING
<b>SCENARIO 1</b> Client order in the OMS or an order received verbally or electronically such that it would be recordable from a regulatory perspective, including Block Working And includes any wrapper, i.e. cash, swap, ETF, etc	✓	✓	N/A	N/A	N/A
<b>SCENARIO 2</b> “In Touch With” IOIs where there is no firm underlying order but there is a reasonable expectation of interest from the specific client	✗	✓	N/A	N/A	N/A
<b>SCENARIO 3</b> Unwind of client facilitation or house position via alternative stock	N/A	N/A	✓	✓	✓
<b>SCENARIO 4</b> Position wanted, same stock	N/A	N/A	✗	✓	✓
<b>SCENARIO 5</b> Hedging of client facilitation or house position via alternative stock	N/A	N/A	✗	✓	✓
<b>SCENARIO 6</b> Proactive liquid provision/ Non-natural risk trading	N/A	N/A	✗	✗	✓
<b>MAY BROKER REVERSE TRADE IN MARKET?</b>	✗	✗	✗	✗/✓	✓

**LEGEND**

- N/A** Scenario is not applicable to this class of IOI
- ✓ Yes
- ✗/✓ Subject to discussion
- ✗ No