Guidance consultation

Change to guidance: reporting of on-exchange derivative transactions conducted through exchange platforms

May 2011

Change to guidance: reporting of on-exchange derivative transactions conducted through exchange platforms (e.g. Bclear, flex options on the Turquoise Derivatives Exchange (formerly EDX London))

We have reviewed our guidance on reporting on-exchange derivatives transactions conducted through exchange platforms.[1] Our current guidance states that when a transaction conducted through an exchange platform is in a derivative instrument which differs in any characteristics from an exchange standardised derivative, the transaction must be reported as an OTC derivative transaction. If the transaction conducted through an exchange platform is in a derivative instrument fungible with an exchange standardised derivative, the reporting firm would have the choice to report as an on-exchange derivative transaction or as an OTC derivative transaction.

Following consultation with firms, trade bodies and exchanges, we are revising our guidance in order to:

- provide clearer and simpler guidance that removes the need to distinguish between transactions for fungible and non-fungible derivative instruments conducted through exchange platforms;

- provide guidance that reflects more accurately the status of the transactions and is easier for firms to integrate into their transaction reporting systems; and

- extend the guidance from just Aii derivative transactions to all derivative transactions (ISIN and Aii) conducted through EEA derivative exchange platforms.

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[1] Set out in Chapter 2 (pages 11 and 12) of Guidelines on reporting of on-exchange derivatives (AII and ISIN derivatives) located at http://www.fsa.gov.uk/pubs/other/reporting_derivatives.pdf

Proposed guidance

1. This guidance applies to all derivative transactions conducted through derivative exchange platforms, regardless of whether those derivatives are fungible or differ in any characteristics from an exchange standardised instrument.

2. The above derivatives are on-exchange instruments traded off order book and should be reported accordingly as set out below.

3. The date and time of the transaction should be the date and time that the transaction was accepted by the exchange platform.

ISIN derivatives (e.g. flex options on the Turquoise Derivatives Exchange)

When a transaction conducted through the exchange platform is in an ISIN derivative instrument, the transaction should be reported as an ISIN transaction.

The proposed guidance will be effective from the Zen implementation hard go-live date (13 November 2011). Firms, may, however, elect to report transactions in ISIN derivative instruments conducted through exchange platforms prior to the hard go-live date.

Example

- Buy DnB NOR April 2011 19 NOK CALL on the Turquoise Derivatives Exchange (formerly EDX London).

- The firm should report this using the ISIN code (NOOB00078976). The exchange venue will be TRQD. The counterparty will be the exchange CCP.

Aii derivative (e.g. Bclear)

Firms are not required to report transactions in Aii derivatives conducted through the exchange platform until the Zen implementation hard go-live date (13 November 2011). From the hard go-live date, firms are expected to report these Aii transactions as shown in the examples below.

Example of fungible contracts

- Buy 10 Vodafone Dec 2011 160 Calls through BClear (LIFFE).

- The firm should report this transaction using the Aii code. The counterparty will be the exchange CCP.

- The Aii code for this transaction will contain the following components: Instrument Identification 'VOD' (Exchange Product Code of Vodafone), Quantity 10, Strike Price 160, Expiry Date Dec 2011, Derivative Type: 'O', Put/Call Indicator 'C', Venue Identification 'XLIF'.

Example of non-fungible contracts

- Buy 10 Vodafone Nov 2011 166 Calls through BClear (LIFFE).

- The firm should report this transaction using the Aii code. The counterparty will be the exchange CCP.

- The Aii code for this transaction will contain the following components: Instrument Identification 'VOD' (Exchange Product Code of Vodafone), Quantity 10, Strike Price 166, Expiry Date Nov 2011, Derivative Type: 'O', Put/Call Indicator 'C', Venue Identification 'XLIF'.

Firms may, however, elect to report fungible and non-fungible transactions in Aii derivative instruments conducted through exchange platforms as OTC derivative transactions **prior to the Zen implementation hard go-live date (13 November 2011)**.

Example of reporting as OTC derivative transaction prior to the Zen implementation hard go-live date

- Buy 10 Vodafone Dec 2011 160 Calls through BClear (LIFFE).

- The firm should report using the Venue Identification (MIC) of XXXX, and the counterparty will be the actual counterparty to the transaction.

- Other components of the report will include: Underlying Instrument Identification 'GB00B16GWD56' (ISIN of Vodafone), Instrument Type 'A' (Equity), Quantity 10, Strike Price 160, Expiry Date Dec 2011, Derivative Type: 'O', Put/Call Indicator 'C'.

We appreciate we have changed our guidance and that firms may have to make some system changes to accommodate this change. The proposed guidance for the reporting of on-exchange derivative transactions conducted through exchange platforms (e.g. Bclear, flex options on the Turquoise Derivatives Exchange (formerly EDX London)) will be effective from the Zen implementation hard go-live date.

Potential rejections for Aii transaction reports with different maturity dates

As a consequence of the change in guidance for derivative transactions set out above, reference data received from exchanges will incorporate derivative instruments where transactions are conducted through exchange platforms. We wish to make you aware that transaction reports submitted following the Zen implementation soft go-live date (8 August 2011) in Aii instruments where the maturity date differs from that of the exchange traded contracts may be rejected by the FSA (as currently the maturity date is part of the validation for an Aii instrument) or may be rejected by your ARM. The FSA will be changing its validation to address this but this change will not be effected until after the Zen implementation soft go-live date. It will be effective before the Zen implementation hard go-live date (13 November 2011).