

Asia Pacific Equities IOI Charter

*Created in conjunction with ASIFMA, Quorum 15, Asia TraderForum and
the FIX Trading Community*

Last Updated: November 2020



Asia Pacific Equities IOI Charter

Created in conjunction with ASIFMA, Quorum 15, Asia TraderForum and the FIX Trading Community

The Asia Pacific Equities IOI Charter provides guidance for all market participants who issue IOIs and the recipients that react to them on a bilateral basis. It uses the internationally recognised standard created in the 2017 AFME/IA Framework for Indications of Interest (IOIs)¹ and provides additional clarification on certain AFME/IA subclasses and behaviours, with the intention of improving the transparency and consistency of approach across participants. It also takes into account input from the 2016 Asia TraderForum IOI Code of Conduct and Best Practice Memorandum and the 2018² and 2019³ Circulars released by the Hong Kong Securities and Futures Commission around the implementation of IOIs. The Charter does not encourage, nor does it regulate communications between brokers or between clients about potential bids and should not be interpreted in a way that would override the provisions of any applicable laws, codes or other regulatory requirements. There are markets in the region where IOIs are not permitted.

This Charter is open to all market participants and is designed as a working document to address practical challenges participants in the Asia Pacific markets face. The industry organisations listed above may periodically engage with stakeholders to determine whether further clarifications are required.

The Asia Pacific Equities IOI Charter

- Firms agreeing to this Charter are expected to apply the procedures and behaviours documented below and expect counterparties who have agreed to the Charter to do the same, pursuant to any further guidance indicated in the Due Diligence Questionnaire (available upon request).
- Firms agreeing to this Charter are expected to have appropriate internal policies, monitoring and supervision in place in order to comply with the practices noted below, and appropriately train relevant staff on its content.
- This Charter is applicable to IOIs on trades in APAC markets.
- Firms operating its practices around Indications of Interest (IOIs) in accordance with the AFME/IA Framework for Indications of Interest, supplemented by the APAC Equities IOI Charter, and subject to the additional guidance and disclaimer below are listed on ASIFMA's website (<https://www.asifma.org/resource/asia-pacific-ioi-charter/>).

Disclaimer:

None of the industry organisations makes any representation or warranty, expressed or implied, in relation to the Charter, including without limitation as to its suitability, completeness or fitness for purpose. Under no circumstances shall any of the industry organisations be liable for any loss or damage, whether direct or indirect, arising out of or in connection with the use of this Charter.

The ASIFMA Competition Law Policy Statement sets out ASIFMA's policy on competition law issues and provides guidance to ASIFMA staff and its members to assist them with ensuring compliance with the relevant competition law as it relates to ASIFMA activities. Please visit <https://www.asifma.org/about/competition-policy/> for more information on ASIFMA's competition policy.

¹ <https://www.afme.eu/Portals/0/globalassets/downloads/divisions/equities/afme-egt-framework-for-indications-of-interest.pdf>

² <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=18EC11>

³ <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=19EC33>

Rules of Engagement

- Segregation between Natural and Non-Natural IOIs is paramount.
- Affiliate house flow will not be represented as C:1/C:2/P:1 (with the exception of client initiated wrappers).
- Brokers should populate FIX field IOIQualifier (104) providing FIX field descriptions as per the below framework, or use a suitable equivalent workflow to denote both (i) Natural and Non-natural status, and (ii) Class:Subclass of the IOI.
- Refresh times on IOIs should be 15 minutes or fewer, with the exception of P:1 orders (detailed on page 6).
- Brokers should utilize a tiered system of appropriateness for differing client types. 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.
- Client firms may request the option to reflect their own IOIs back to them.
- Client firms may request IOIs not to be sent for their orders on a trade-by-trade basis.
- Client firms should have a tradeable order in hand before asking brokers to IOI on their behalf.
- Clients that do not allow their orders to be issued as an IOI should not expect to receive IOIs (C:1/C:2/P:1) from brokers, except for House flow (H:1/H:2/H:3).
- Clients will communicate to their brokers that they will prefer IOIs from brokers who have agreed to the charter, and brokers who do not could risk their IOIs being filtered out.

Framework (as per AFME/IA)

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

Guidelines

While the purpose of this Charter and the additional guidance is to bring some standardization and offer recommended practices to the IOI regime, it shall have no legal force. The consequences of errors in classifications will be bilateral between the parties and relationship based, not legal, in nature.

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

Client Natural (Block) C:1

AFME/IA: 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.

APAC Charter Additional Guidance:

Natural/non-Natural status: Natural

Interacting with Principal/Risk Flow: No, except client-initiated wrappers

- For the avoidance of doubt, the client order must be in the broker OMS when the IOI is issued.
- Wrappers (for example client-initiated swap hedges) can be flagged as C:1.
- Clients interacting with a C:1 IOI should reasonably expect to transact a block at a specific price (including benchmark prices e.g. VWAP or TWAP) and above a minimum size (e.g. >20% 21 day ADV or USD 5mm).
- Size thresholds may be determined by the broker's policy but should be clearly defined and disclosed in the Due Diligence Questionnaire.
- Where prices are based on a benchmark, this should be noted in the comments field.

Client Natural (Working) C:2

AFME/IA: 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.

APAC Charter Additional Guidance:

Natural/non-Natural status: Natural

Interacting with Principal/Risk Flow: No, except client-initiated wrappers

- For the avoidance of doubt, the client order must be in the broker OMS when the IOI is issued.
- Wrappers (for example client-initiated swap hedges) can be flagged as C:2.

Potential P:1

AFME/IA: 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 the 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 materialize, and the broker elects to commit capital, this must be disclosed prior to execution.

APAC Charter Additional Guidance:

Natural/non-Natural status: Natural

Interacting with Principal/Risk Flow: No (except client-initiated wrappers)

In issuing a P:1 the participant issuing the IOI should have had:

- (1) Either:
 - a) an order in the OMS on T-1 or T date, or
 - b) a discussion with the client on T date on a recordable medium (satisfactory from a regulatory perspective) AND
- (2) In all cases, the broker must also have a reasonable expectation of continued interest.

Unwind H:1

AFME/IA: 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.

APAC Charter Additional Guidance:

Natural/non-Natural status: Natural

Interacting with Principal/Risk Flow: Yes

- As per the AFME/IA Framework, H:1 IOIs can be marked as Natural.
- In general, the intention is not to replenish in the market on the same day unless there is a material change to market conditions; or the client is notified.
- The expectation is that upon request, the broker will provide statistics for the aggregate percentage of same day replenishment vs H:1 IOIs.
- The unwind of any form of guaranteed order, such as client GVWAP orders/hedges, should be flagged as H:1.
- Clients can expect the broker to honour the size of IOI shown.

Position Wanted H:2

AFME/IA: 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.

APAC Charter Additional Guidance:

Natural/non-Natural status: Natural

Interacting with Principal/Risk Flow: Yes

- As per the AFME/IA Framework, H:2 IOIs can be marked as Natural.
- In general, the intention is not to unwind in the market on the same day unless there is a material change to market conditions; or the client is notified.
- The expectation is that upon request, the broker will provide statistics for the aggregate percentage of same day unwinds vs H:2 IOIs.

Market Making H:3

AFME/IA: No enforcement required

APAC Charter Additional Guidance: As per AFME/IA

Natural/non-Natural status: Non-Natural

Interacting with Principal/Risk Flow: Yes