

## Advisory Notice

Clearing House

TO: Clearing Member Firms,  
Back Office Managers

FROM: Clearing House Department

DATE: April 28, 2004 (originally published April 8)

ADVISORY #: 04-60 - Revision 2

SUBJECT: **New Blocks and EFP's Applications to be deployed in June, 2004**

### REVISION 1: (published April 23)

The byte on the TREX main block which identifies how the trade was submitted, is in position 164, not position 166 as originally specified, and links to the updated TREX layout document and to a file of sample TREX messages are provided.

### REVISION 2: (published April 28)

The trade id source code on the TREX main block (position 146-148) will remain **EFP** for all block and EFP trades. This is consistent with the current TREX format for block and EFP trades in the 3270-based EFP system.

As previously described in meetings of the Clearing Advisory Group and the FIA Clearing and Technology Committee, CME's next enhancement to our clearing trade management systems involves **Block Trades** (also called **Wholesale Trades**), and **Exchange-For-Physical (EFP)**, **Exchange-For-Risk (EFR)**, and **Exchange-For-Swap (EFS)** trades. We are targeting an early June launch date.

Generically, we are referring to all of these transaction types as **PNT's -- Privately Negotiated Transactions** -- since trades are directly executed between two parties -- neither on a trading floor nor on an electronic system. For simplicity within this document, we will refer to all of these transactions simply as **blocks and EFP's**.

With this enhancement, the existing 3270-based user interface for handling futures block trades and EFP trades will be eliminated. Similarly, option block trades will no longer be handled through TES. Instead, block and EFP trades will be processed within the **Front-End Clearing (FEC)** browser-based user interface. The change in user interface is the least part of the enhancements associated with the new system, however:

1. **First and foremost, it will now be possible to give up block and EFP trades**, exactly as firms can now give up ordinary pit or electronic trades. Blocks and EFP's can be marked for give-up exactly like pit or electronic trades, and doing so will route them to the Allocate/Claim System (ACS) portion of the FEC application. All functions of ACS will work for block and EFP trades exactly as they do for pit or electronic trades, including the TREX-based Give-Up API messaging, which allows firms to load accepted trades to books and in addition to automate the allocation and acceptance process if they desire.

2. Since blocks and EFP's will now be processed in ACS just like any trade, **they will now flow into the GAINS system, and GAINS can be used for give-up billing for them**, exactly as it is used for pit or electronic trades.
3. Blocks and EFP's will now be handled via a **two-sided submission and trade match** process, rather than the single-sided entry (allocate and claim) process now used. Most firms have told us that they prefer a two-sided submission, in which they can simply submit the trade to us without having to wait for the other side to come in to them. In addition, the existing "market-maker-submits" convention for EFP's, has caused confusion since it is not always clear exactly which side qualifies as the "market-maker."

To simplify processing for firms when they are on both sides of a block or EFP trade, it will be possible to accomplish this via a single action.

4. Block and EFP trades will be displayed on the intra-day and end-of-day firm out-trade reports, making it easy for firms to review these trades and determine which remain unmatched.
5. **Separate trade types will be provided for block trades, and EFR's and EFS's.** These will no longer all be identified as the original trade type "9" used for EFP's. Block trades will have trade type "B", and EFR's and EFS's will have "R" and "S", respectively. This will facilitate firms charging customers different fees for block trades versus EFP's, and is something which firms have been particularly asking for.
6. The new application will have a **comprehensive FIXML message-based API for all aspects of trade management for blocks and EFP's.** In contrast to the current system, where the only automation possible is the loading of accepted trades to books, with the new system, firms will be able to submit and change trades via message.

**Reporting of Block Trades:** For block trades in CME products, firms must continue to use current procedures for price reporting. Specifically, firms will still have to call or fax block trade details to the GLOBEX Control Center (GCC) within 5 minutes (15 minutes for interest-rate products) of execution. Block trades in CME flex options will still require RFQ's to be reporting to CME trading floor staff before trades can be executed. Wholesale trade reporting procedures for CBOT products will be similarly unchanged.

**Regarding FIXML and TREX:** as firms are aware, CME has been working for approximately two years now, through the Futures Industry Association's Standards Committee, and as part of FIX Protocol Ltd., to develop a new industry standard for post-execution clearing processing transactions using FIXML. FIXML is currently available for CME-CBOT clearing firms for "Position Services" -- including Trade Register data, position adjustments, option exercise instructions, and PCS submission -- and for SLEDS processing.

FIXML will provide many benefits for firms, above and beyond that of standardization. Perhaps most important are the elimination of legacy data constraints such as two-byte product codes and four-digit strike prices, and the ease of modification in the future as the business grows and becomes more complex.

As part of CME's commitment to this new standard, we will offer the full functionality of the new message-based API for blocks and EFP's, exclusively in FIXML.

We recognize, however, that adoption of FIXML by firms is a major undertaking, and one that cannot be accomplished immediately. So that firms can switch to the new Block and EFP system with minimal work, therefore, **we will also provide the existing trade confirmation messages to firms using the existing TREX format.**

**Firms not wishing immediately to support FIXML, will still be able to key their block and EFP trades into the clearing system, exactly as they do today, and will still receive TREX confirmation messages for these trades to load to books, exactly as they do today.**

Please note also that existing TREX-based messaging for the Give-Up API is not being affected yet. **Firms will be able to use TREX messages for all aspects of managing giveups, including, now, for blocks and EFP's.**

**TREX details:** Firms should be aware of the following details regarding these TREX confirmation messages for blocks and EFP's in the new system:

- **Trade type:** as described above, firms will receive in the transaction type field (bytes 50-51 of the main block) values of **B** for block trades, **R** for EFR's, and **S** for EFS's. Only EFP's will contain the existing trade type **9**. (Firms will no longer receive trade types 1 or 6 for EFP's or blocks.)
- **Trade source code:** the Trade Source Code field (bytes 146-148 of the main block) will contain **EFP** for all block and EFP trades, **exactly as it currently does**. (Please note that the original and first revision versions of this advisory had indicated that this value would be **TES** for all EFP and Block trades. Due to requests from firms and service bureaus, we will keep this value as **EFP**.)
- **Order type codes:** the values **B**, **N** and **T**, currently used to identify a block trade, an EFS or an EFR, respectively, will no longer be valid values in the Order type code field in bytes 151-152 of the main block.
- **Identifying trades submitted via the user interface versus submitted via message:** byte 164 of the main block will contain either an **A**, indicating that the trade was submitted via message, or a **U**, indicating that the trade was submitted via the Front-End-Clearing (FEC) browser-based user interface.
- **Subsystem code:** on the **M1** block, the subsystem code in bytes 6-8, will contain **TMS** for all block and EFP trades. The EFP value will no longer be used.

**Trade ID usage:** Firms submitting block and EFP trades via FIXML message will be able to assign their own trade ID's in the normal firm-assigned range of 1 to 49,999.

For block and EFP trades keyed into the browser-based user interface, the system will assign the trade ID in the range from 500,001 to 999,999.

**Updated TREX layout document:** the updated TREX layout document (version 2.1) is available at: [www.cme.com/files/CCL-TREX-2.1.pdf](http://www.cme.com/files/CCL-TREX-2.1.pdf).

**Sample TREX messages:** a file of sample TREX messages is available at: [ftp.cme.com/pub/span/data/cme/test/trex.blocks.txt](ftp://cme.com/pub/span/data/cme/test/trex.blocks.txt). **The records in this file have been updated to reflect the value of EFP for the trade source code.**

**FIXML specifications:** The full specifications for the use of FIXML for blocks and EFP's are available on the CME's FIXML web page, at <http://www.cme.com/clr/cltmgt/fixml6615.html>.

**Testing:** Testing opportunities will be provided for firms for the new block and EFP capabilities during May. Details will be published shortly.