

Extract from Market Watch 40 (published September 2011)

Finalised guidance for transaction reporting of transactions in Chi-X centrally cleared contracts for difference

As notified in the finalised guidance published in January 2011¹ Chi-X launched trading in a new type of instrument on 8 November 2010 – centrally cleared contracts for difference (ccCFDs).

These new instruments fall under our transaction reporting regime as the underlying instruments to these CFDs are all admitted to trading on a regulated market.

These new Multilateral Trading Facility (MTF) instruments should be treated as over the counter (OTC) CFDs for transaction reporting purposes – i.e. the transaction report fields should be populated according to current guidance for OTC derivatives. Firms should particularly note that the instrument identifier for the ccCFDs should be left blank rather than being populated with the ISIN of the ccCFD. Additionally, the trading venue should be populated with 'XXXX' rather than the MIC for Chi-X.

Originally we had envisaged that the FSA would establish a feed of reference data from Chi-X and firms would then be able to populate the instrument identifier with an ISIN and the trading venue with 'CHIX'. The FSA anticipated that this would take place in Q2 or Q3 2011. However, FSA has now decided that it will not establish this feed and transactions in these instruments should continue to be reported as OTC derivatives.

Transaction reporting obligations for the trading and hedging of the ccCFDs will fall upon the following parties:

Executing brokers:

1. Initial equity hedge for the CFD position on the market.
2. Cash equity trade against London Clearing House as counterparty on Chi-X.
3. CFD trade in a Principal cross capacity against the London Clearing House as counterparty one and the client as counterparty two with trading venue 'XXXX'.

Allocated clearing members:

1. Cash equity trade against London Clearing House (LCH) as counterparty on Chi-X.
2. CFD trade against the LCH as counterparty with trading venue 'XXXX'.

Clients:

¹ www.fsa.gov.uk/pubs/guidance/fg11_01.pdf

1. If the client is an investment firm and cannot rely on the broker for transaction reporting purposes (SUP 17.2.2), it will submit a CFD transaction report against the executing broker as counterparty with trading venue 'XXXX'.