

RSM McGladrey

Executive Summary

Market Participant's Perspective: Status of
Transaction (Clearing and Exchange) Fees
on a Global Basis

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Introduction

The exponential growth and evolution of the global derivatives, futures and commodities industry over the past ten years (overall global futures and options volume increasing 515%), driven by the paradigm shift from open-outcry to electronic trading and demutualization of Exchanges, has lead Exchanges to develop and implement complex transaction fee schedules.

Complexity of Transaction Fee Schedules

Exchanges have created multiple transaction fee structure types (membership and transaction) along with additional transaction fee schedules (open-outcry, electronic, product specific trading, volume discount levels (daily and/or monthly), incentive program participants and variable component based) to increase their volumes and revenues. By Exchanges creating these complex transaction fee schedules, FCMs' ability to monitor transaction fee payments to Exchanges and collection of transaction fees from their clients is an on-going challenge and labor intensive (manual) task.

Selected Exchange and Clearing Fee Schedule Review

Our experienced management consulting team discussed and agreed with the FIA Exchange Fee Subcommittee on the following Exchanges for an in-depth review of their transaction fees schedules:

- CME Group
- New York Mercantile Exchange
- ICE Futures US
- ICE Futures Europe
- Eurex
- Liffe
- Korea Exchange
- Hong Kong Exchange and Clearing Ltd.

Transaction Fee Survey

Our experienced management consulting team and the FIA Exchange Fee Subcommittee developed a Transaction Fee Survey.

Based on the detailed responses received from approximately twenty global FCMs, the main themes and issues that resonate throughout the responses are as follows:

- Complexity of Transaction Fee Schedules
 1. Multiple Membership Types (Equity Clearing Member, Lessee/Licensee/Delegate, Electronic Corporate Member, Individual Equity Member, Proprietary Trading Firm, Hedge Fund, etc.)
 2. Multiple Transaction Types (Exchange fee, Clearing fee, Electronic clearing fee (Globex), EFP, Exercise/assignment/expiration fee, Delivery fee, etc.)
 3. Multiple Trading Platforms (Open-outcry and Electronic)
 4. Daily and/or Monthly Volume Discount and Fee Capping Programs
 5. Product Specific Trading Fees
 6. Incentive Participant Programs
- Various membership (individual, clearing member firm, member firm, etc.) types and rules in place at Exchanges can be complex and difficult to monitor;

this information currently has to be maintained in both the Exchange and FCM Back Office Service Provider's systems, hence lending itself to further miscalculations of transaction fees

- Required registration of electronic traders into the Transaction Fee billing system in order for these traders to receive the preferential transaction fee reductions; the registration and maintenance of these traders is labor intensive and getting the required information for each trader can be a challenge
- Limitations within Back Office Service Provider system to properly calculate transaction fees based on the multiple scenarios (tiering, capping, etc.) each Exchange has offered market participants for increasing Exchange volumes and market share
- Lack of availability of Transaction Fee Schedules from Exchanges (either on website or in-house staff) in an "easy to read" and summarized format, lack of timely and efficient notification from Exchanges when transaction fees are updated, lack of trade data files available to FCMs from Exchanges (reconciliation tool) and time constraints on FCM to request transaction fee rebates versus audit review period by Exchanges

Recommendations and Next Steps toward Implementation

After completing the selected Exchange and clearing fee schedule reviews and compiling the responses from the transaction fee survey, the following details recommendations and next steps toward implementation.

Recommendations

- Exchanges communicate transaction fee modifications (moves/adds/changes, fee waivers, fee bulletins and circulars) to market participants in a timely and efficient manner. These transaction fee modifications should be posted on the Exchange's website with a contact name or contact group, group e-mail address and phone number to contact for all transaction fee modifications.
- Exchanges make transaction fee schedules easily accessible. The schedules should be posted on the Exchange's website with an individual contact name or contact group, group e-mail address and phone number to contact for all transaction fee inquiries and most importantly, the contact name or contact group should have an in-depth knowledge of the Exchange's transaction fee schedule.
- Exchanges develop and implement a "Transaction Fee Alert" e-mail list to disseminate transaction fee modifications to market participants in a timely and efficient manner. Market participants can receive transaction fee modifications (moves/adds/changes, fee waivers, fee bulletins and circulars) updates by entering a firm contact on the Exchange's e-mail list link posted on the Exchange's website.
- Exchanges make available membership information in data file format that FCMs can upload and verify client information within their Back Office Service Provider's membership master file and Exchange's transaction fee systems, if applicable.
- Exchanges develop, implement and maintain, with input from FCMs and Back Office Service Providers, their transaction fee schedule as a data file that market participants can download from their website. Market participants can

receive the transaction fee schedule data file by clicking on a web link on the Exchange's website.

- Back Office Service Providers need to work with Exchanges, FCMs and ISVs and be held accountable for the development, implementation and maintenance of transaction fee modules on an as-needed basis by Exchange to calculate tiered pricing, daily and monthly fee caps and any other transaction fee pricing to alleviate the manual intensive procedures needed in regards to monitoring transaction fees.
- Exchanges extend their timeframe for FCMs to recapture transaction fee miscalculations to coincide with each Exchange's timeframe to review FCMs for transaction fee miscalculations.
- Explore with the Exchanges a phased-in approach that would include the following:

A multi-step process wherein FCMs initially submit their client membership information to the Exchange, followed by FCM submission of client trade data to the Exchange which then verifies the accuracy of the applicable member transaction fees/rates including tiered pricing and daily/monthly fee caps and discounts.

Next Steps

Based on the above recommendations, next steps toward implementation of the recommendations could entail the following:

- FIA Chicago and FIA Future Services Divisions reviewed a draft copy of the White Paper at the 2008 Planning Session and formed a working group of FCMs, Back Office Service Providers and ISVs to review the recommendations and develop a prioritized Plan of Action to address the issues identified within the White Paper. Part of the process will be to discuss with Exchanges the prioritized Plan of Action and steps to move forward with the Plan of Action.