

**RSM** McGladrey

## White Paper

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

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Futures Industry Association  
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# Contents

<b>INTRODUCTION .....</b>	<b>1</b>
INDUSTRY PERSPECTIVE .....	1
<b>BACKGROUND INFORMATION ALONG WITH SELECTED DATA ANALYSIS .....</b>	<b>2</b>
SELECTED DATA ANALYSIS: 1997–2006.....	3
<b>SELECTED EXCHANGE AND CLEARING FEE SCHEDULE REVIEW .....</b>	<b>7</b>
CME GROUP'S CME FEE SCHEDULE .....	7
CME GROUP'S CBOT FEE SCHEDULE .....	9
NYMEX .....	10
ICE FUTURES US .....	11
ICE FUTURES EUROPE .....	11
EUREX.....	12
LIFFE.....	13
KOREA EXCHANGE.....	14
HONG KONG EXCHANGE AND CLEARING LTD. ....	14
<b>TRANSACTION FEE SURVEY .....</b>	<b>15</b>
<b>RECOMMENDATIONS AND NEXT STEPS TOWARD IMPLEMENTATION .....</b>	<b>17</b>
<b>CONCLUSION.....</b>	<b>19</b>

## Appendix

- Selected Exchange and Clearing Fee Schedules
- Transaction Fee Survey Responses
- About RSM McGladrey and McGladrey & Pullen

## Introduction

RSM McGladrey Inc. is pleased to provide the Future Industry Association (FIA) Chicago and Futures Services Divisions with a comprehensive review and analysis of transaction fees. For the purposes of this analysis, transaction fees will be defined as exchange and clearing fees. Our experienced management consulting team's comprehensive review and analysis of transaction fee structures will entail the following plan of action:

- Background information and selected data analysis
- Selected exchange and clearing fee schedule reviews
- Transaction fee survey
- Recommendations and next steps toward implementation

Additionally, we will include an appendix which will include the selected exchange and clearing fee schedules and transaction fee survey responses.

## Industry Perspective

The exponential growth and evolution of the global derivatives, futures and commodities industry over the past 10 years, driven by the paradigm shift from open-outcry trading to electronic trading and demutualization of exchanges, has lead exchanges to develop and implement complex transaction fee schedules.

With transaction fees changing at a fast-moving pace, it has been nearly impossible for FCMs back office and accounting staffs along with Back Office Services Providers to stay on top of all of the moves/adds/changes. There is insufficient lead time for Back Office Service Providers to develop, implement and maintain fee software before transaction fee changes occur. FCMs are dealing with controlling costs and head count in the back office and accounting staffs, their 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. Transaction fee tables within each FCM have to be updated and maintained on a real-time basis. The communication between the FCM, Exchanges Back Office Service Provider has to be constant and on a daily basis.

This White Paper will gauge the pulse of the global derivatives, futures and commodities industry regarding transaction fees and how all market participants can forge ahead with agreed-upon and concrete solutions to help create and foster a "win-win" environment for all.

## Background Information along with Selected Data Analysis

Exchanges have created multiple transaction fee structures for the following trade types:

### Membership type

- Equity clearing member
- Lessee/licensee/delegate
- Electronic corporate member
- Individual equity member
- Proprietary trading firm
- Hedge fund
- Regular market making
- Permanent/advanced market making

### Transaction type

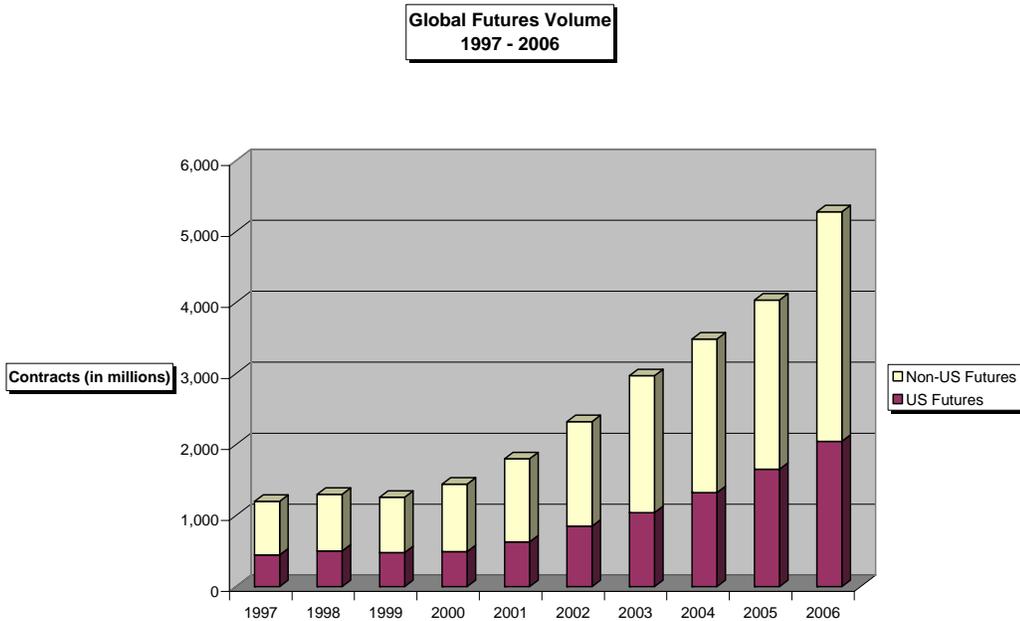
- Exchange fee
- Clearing fee
- Electronic clearing fee (e.g., Globex Fee)
- Exchange for physicals (EFP) surcharge
- Give-up surcharge
- Exercise/assignment/expiration fee
- Delivery fee
- Position transfer fee
- Position adjustment fee
- Block trade fee

Additionally, some exchanges have transaction fee schedules for:

- Open-outcry trading
- Electronic trading
- Product specific trading
- Volume discount levels (daily and/or monthly)
- Incentive program participants
- Variable component based (number of contracts, daily settlement price, etc.)

## Selected data analysis: 1997–2006

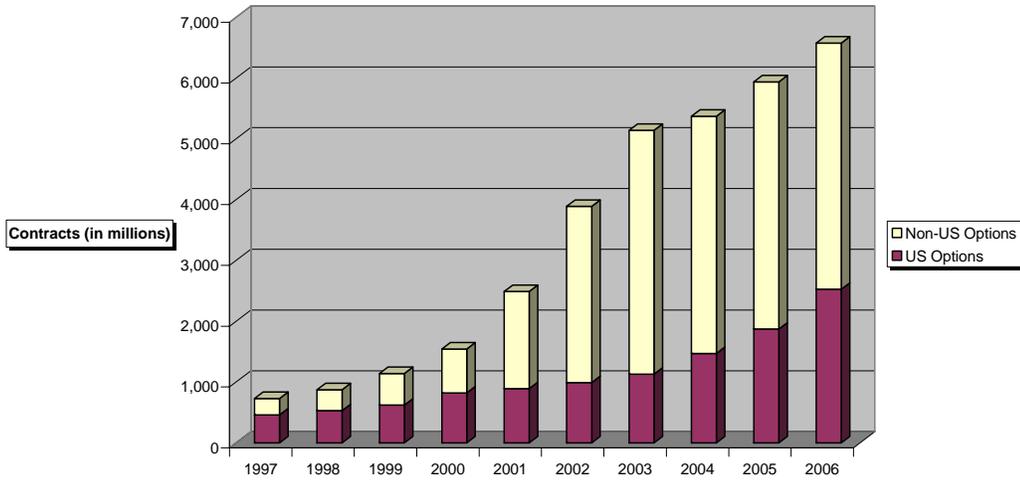
With the burgeoning onset of electronic trading and demutualization of exchanges, the below five charts detail the global futures and options volume growth, futures and options volume growth by selected exchanges and transaction fee revenue growth by selected exchanges.



Global futures volume has increased from 1.20 billion contracts in 1997 to 5.28 billion contracts in 2006, an increase of 340 percent.<sup>1</sup>

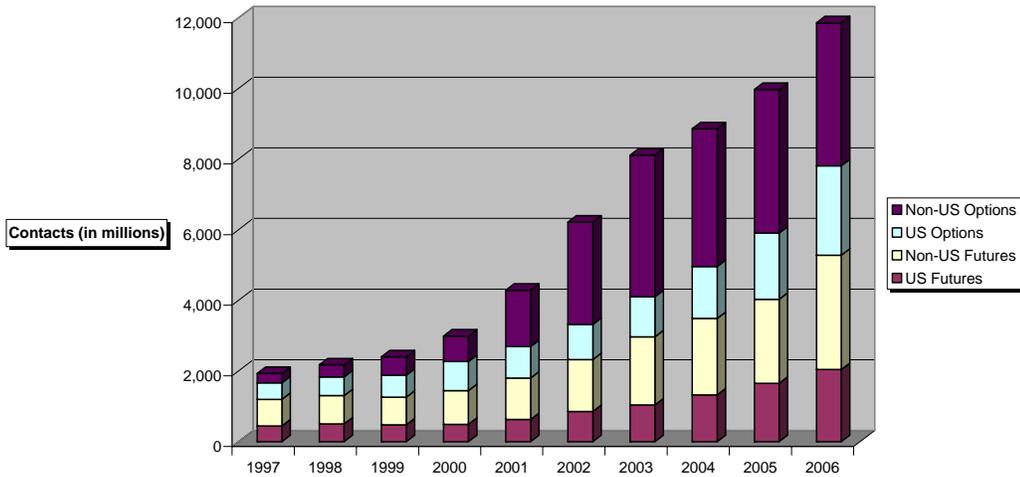
<sup>1</sup> Global Futures and Options Volume data obtained from Futures Industry Association research.

**Global Options Volume  
1997 - 2006**



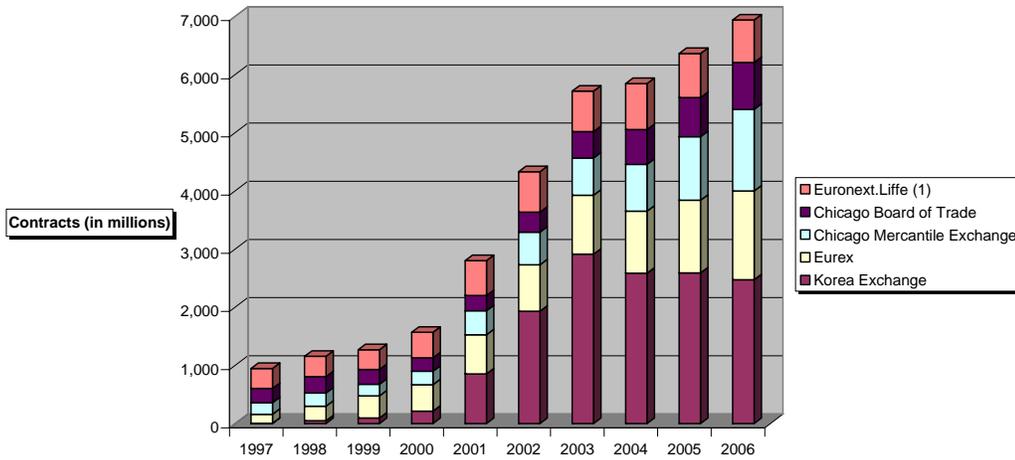
Global options volume has increased from 731 million contracts in 1997 to 6.58 billion contracts in 2006, an increase of 800 percent.

**Global Futures and Options Volume  
1997 - 2006**



Global futures and options volume increased from 1.93 billion contracts in 1997 to 11.86 billion contracts in 2006, an increase of 515 percent.

**Global Futures and Options Volume by Selected Exchanges  
1997 - 2006**



**Korea Exchange\*** » There were 8 million contracts traded in 1997, whereas 2.47 billion contracts were traded in 2006.

**Eurex\*** » There were 152 million contracts traded in 1997, whereas 1.53 billion contracts were traded in 2006.

**Chicago Mercantile Exchange\*** » There were 201 million contracts traded in 1997, whereas 1.40 billion contracts were traded in 2006.

**Chicago Board of Trade\*** » There were 243 million contracts traded in 1997, whereas 806 million contracts were traded in 2006.

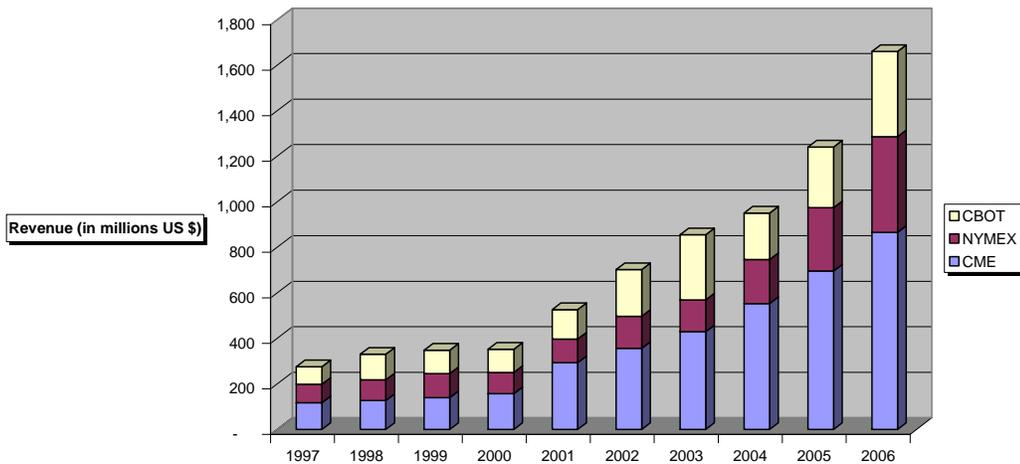
**Euronext.Liffe\*<sup>2</sup>** » There were 344 million contracts traded in 1997, whereas 730 million contracts were traded in 2006.

Global futures and options volume from the five abovementioned Exchanges increased from 948 million contracts in 1997 to 6.94 billion contracts in 2006, an increase of 630 percent.

\* Transaction fee revenue obtained from each exchange's annual audited financial report.

<sup>2</sup> Euronext.Liffe volumes from 1997–2001 are the following: Amsterdam Exchanges, Belgium Futures and Options Exchange, Bolsa de Derivados do oporto, London International Financial Futures Exchange and ParisBourse.

**Transaction Fee Revenue by Selected Exchanges  
1997 - 2006**



**Chicago Mercantile Exchange\*** » There was \$116,917,000 in transaction fee revenue in 1997, whereas in 2006, there was \$866,089,000 in transaction fee revenue.

**New York Mercantile Exchange\*** » There was \$80,773,000 in transaction fee revenue in 1997, whereas in 2006, there was \$419,731,000 in transaction fee revenue.

**Chicago Board of Trade\*** » There was \$76,793,000 in transaction fee revenue in 1997, whereas in 2006, there was \$373,324,000 in transaction fee revenue.

Transaction fee revenue from the three abovementioned Exchanges increased from \$274,483,000 in 1997 to \$1,659,144,000 in 2006, an increase of 504 percent.

\* Transaction fee revenue obtained from each exchange's annual audited financial report.

## Selected Exchange and Clearing Fee Schedule Review

Our experienced management consulting team discussed and agreed with the FIA Exchange Fee Subcommittee on the exchanges selected for an in-depth analysis and review. In order to keep the project manageable in terms of scope and time, we will analyze and review the transaction fee schedules of the following exchanges:

- CME Group (CME and CBOT Fee Schedules)
- New York Mercantile Exchange (NYMEX)
- ICE Futures US
- ICE Futures Europe
- Eurex
- Liffe
- Korea Exchange
- Hong Kong Exchange and Clearing Ltd.

Please note that for our analysis and review, we will look at the CBOT and CME as two distinct schedules due each having their own transaction fee schedule.

### CME Group's CME Fee Schedule

The CME Fee Schedule has three distinct schedules based upon transaction type:

- Open outcry and CME Globex clearing fees (futures and options)
- Schedule charges clearing fees based on 11 product types and 15 membership types
- CME Globex fees (futures and options)
- Schedule charges Globex fees based on 15 product types and 15 membership types, as well as other fees (futures and options)
- Schedule charges other fees based on 11 product types and nine transaction types (EFP surcharge, block trade surcharge, lessee brokerage, 106.F employee brokerage, floor/"new" brokerage, position transfers and adjustments, give-up surcharge, and exercise and assignment surcharge)

The CME Fee Schedule has approximately 30 notes. Examples of these notes are:

- CME Globex fees are capped at \$50 per day per CME e-mini futures product per operator ID and \$200 per day per CME e-mini options product per operator ID
- On a tiered basis, clearing fees for interest rate and foreign exchange products will be reduced for trading volumes exceeding designated monthly average daily volumes
- Clearing and CME Globex fees for CME Globex transactions are based on the combined memberships of the operator and the account owner
- TRAKRS products are charged by order size and membership (customer, member and approved market maker) type
- On a tiered basis, for corporate members and incentive program participants, the clearing fee for Eurodollar futures, Euroyen futures and options trade electronically is reduced for trading volumes in excess of 15,000 contracts per month

Additionally, 30 clearing fee waivers are in place and a new product access program has 70 new products that members can trade outside their division of membership and will pay lessee clearing and Globex fees.

The CME Fee Schedule is available on the CME Group's website [www.cmegroup.com](http://www.cmegroup.com) or by contacting the EFS Support Team [efsadmin@cmegroup.com](mailto:efsadmin@cmegroup.com). Updates to the CME fee schedule are communicated through bulletins via an FCM email listing.

The CME has developed a fee billing system called the CME Exchange Fee System (EFS) System. The EFS System enables FCMs to reconcile their clearing and Globex fees based on the membership information input by FCMs into the EFS System and the CME membership database. The EFS System allows for FCMs to receive more accurate billing information, fewer manual adjustments, reduces a FCM's reconciliation effort to correct fee misapplications and enables the FCM to allocate exercise, assignment and deliveries to the appropriate member account, if applicable.

## CME Group's CBOT Fee Schedule

The CBOT Fee Schedule has four distinct schedules based upon the following products:

- Agricultural products charge exchange fees based on 3 product types, 2 trading platforms and 13 membership types
- Equity products charge exchange fees based on 5 product types, 2 trading platforms and 13 membership types
- Metals products charge exchange fees based on 3 product types, 1 trading platform and 13 membership types
- Financial products charged exchange fees based on 3 product types, 2 trading platforms, 13 membership types and tiered volume discounts

The CBOT has 10 fee waivers and a transaction fee schedule for ex-pit surcharge, non-trades, clearing fees and fees for DJ-AIGCI. This schedule has approximately 20 transaction fees (exchange for physicals, exchange for swaps, exercise/assignment/expiration/deliveries, etc.)

The CBOT Fee Schedule is available on the CME Group's website [www.cbot.com](http://www.cbot.com) or by contacting the Exchange Fee System (EFS) Support Team [efsadmin@cmegroup.com](mailto:efsadmin@cmegroup.com). Updates to CBOT Fee Schedule are communicated through bulletins via an FCM email listing.

The CBOT has developed a fee billing system called the Dashboard System. The Dashboard System enables FCMs to reconcile their exchange fees based on the membership information input by FCMs into the Dashboard System and the CBOT Membership database. The Dashboard System allows for FCMs to receive more accurate billing information, fewer manual adjustments, reduces a FCM's reconciliation effort and enables the FCM to allocate exercise, assignments and deliveries to the appropriate member account, if applicable.

With the merger of the CME and CBOT, the Dashboard System will be replaced with the CBOT Exchange Fee System (CFS). The CFS System will be available in parallel with the Dashboard System from November 1, 2007 through December 31, 2007. Commencing January 1, 2008, the CFS System will supersede the Dashboard System for billing purposes, however the Dashboard System will be available for fee adjustments through February 29, 2008 for the months of November and December 2007.

## NYMEX

The NYMEX Fee Schedule has five distinct schedules based upon transaction types:

- Open-outcry and CME Globex Trading Fees based on 15 clearing transaction types, 2 trading platforms, 9 membership types and 2 divisions
- Cash-settlement fees based on 17 contract types and 2 membership types
- Full-sized and NYMEX miNY futures contracts based on 9 contract types and 4 membership types
- NYMEX ClearPort clearing fees based on 21 product types and 2 membership types
- NYMEX ClearPort clearing fees based on 13 product types and 2 membership types

The NYMEX has fee waivers on cash settlement fees for all NYMEX products traded on the CME Globex System.

Additionally, the NYMEX sends out on a monthly basis a worksheet entitled *Clearing Department Commodity Summary*. The summary details trade venue, product type and trading platform for all NYMEX products.

The NYMEX fee schedule is available on the NYMEX website [www.nymex.com/fees\\_sched.aspx](http://www.nymex.com/fees_sched.aspx) or by contacting the NYMEX Clearing Department. The *Clearing Department Commodity Summary* can be requested from the NYMEX Clearing Department and is available on an as-needed or monthly basis. Updates to NYMEX Fee Schedule are communicated through notices to members and via postings to their website.

The NYMEX has developed a fee billing system called the e-billing System. The e-billing System enables FCMs to reconcile their exchange fees based on the membership information input by FCMs into the e-billing System and the NYMEX Membership database. The e-billing System allows for FCMs to receive more accurate billing information, fewer manual adjustments, reduces a FCM's reconciliation effort and enables the FCM to allocate exercise, assignments and deliveries to the appropriate member account, if applicable.

## ICE Futures US

The ICE Futures US exchange and clearing fee schedule is based upon the following:

- Exchange and clearing fees based on 6 product types, 2 trading platforms and 5 membership types
- Other fees based on 6 transaction types and 2 product types

The ICE Futures US communicates fee waivers through notices directly to their members.

The ICE Futures US exchange and clearing fee schedule is available on the ICE Futures US website [www.theice.com/publicdocs/futures\\_us/Exchange\\_Clearing\\_Fees.pdf](http://www.theice.com/publicdocs/futures_us/Exchange_Clearing_Fees.pdf) or by contacting the ICE Futures US Clearing Department.

## ICE Futures Europe

The ICE Futures Europe exchange and clearing (LCH.Clearnet) fee schedule is based upon the exchange and clearing fees based on 7 product types and 8 transaction types.

The ICE Futures Europe communicates fee waivers through circulars available on their website [www.theice.com/circulars](http://www.theice.com/circulars).

The LCH.Clearnet fee schedule is available on the ICE Futures Europe website [www.theice.com/publicdocs/futures/ICE\\_Futures\\_Fees.pdf](http://www.theice.com/publicdocs/futures/ICE_Futures_Fees.pdf) or by contacting the ICE Futures Europe Clearing Department.

## Eurex

The Eurex transaction fee schedule is based upon the following:

- Regular transactions based on 5 account types, approximately 60 product types and 4 currency types
- Over-the-counter (OTC) entries – block trades based on 5 account types, approximately 60 product types and 4 currency types
- OTC Entries – flex options based on 2 account types (maximum fee per trade entry corresponds to number of contracts), approximately 30 product types and 3 currency types
- OTC Entries – EFP and Exchange for Swaps trades based on 2 account types, approximately 20 product types and 3 currency types
- OTC Entries – Vola-trades based on 5 account types, approximately 25 product types and 2 currency types
- Rebates based on 3 levels and 8 product groups
- Other fees include position adjustments (multiple currency types and product types), cash settlement (multiple currency types and product types), and exercise of options (multiple account, product and currency types)

Eurex communicates fee waivers through circulars available on their website [www.eurexexchange.com/documents/all\\_circulars\\_de.html](http://www.eurexexchange.com/documents/all_circulars_de.html).

Eurex Transaction fee schedule is available on the Eurex website [www.eurexexchange.com/documents/regulations/price\\_list\\_de.html](http://www.eurexexchange.com/documents/regulations/price_list_de.html) or by contacting the Eurex Clearing Department.

## Liffe

The Liffe *Equity Portfolio Summary of Trading Fees for Equity Derivatives Contracts* fee schedule is based on the following:

- Amsterdam market based on 2 member types, 5 product types and maximum fee per order
- Brussels market based on 2 member types, 2 product types and premium value (options only)
- Lisbon market based on 3 product types
- Paris market is based on 4 member types, 4 product types, order size, contract size and monthly performance
- London markets based on 2 member types, 5 product types, number of lots (stock options) and volume bands (FTSE 100 Index Options)

Please note the designated market-making schemes are available for individual equity options (designated and primary market maker scheme) and FTSE 100 Index Options (designated market maker scheme); and

The Liffe London derivatives markets schedule is based upon:

- Liffe Connect transaction charges based on approximately 25 product types
- BCLEAR transaction charges based on approximately 25 product types, 2 member types and fee caps per transaction

Liffe communicates fee waivers through circulars available on their website [www.euronext.com](http://www.euronext.com).

Liffe transaction fee schedules are available on the Liffe website [www.euronext.com/editorial/wide/editorial.4123.EN.html](http://www.euronext.com/editorial/wide/editorial.4123.EN.html) or by contacting the Liffe Clearing Department.

## Korea Exchange

The Korea Exchange fee schedule is based upon the exchange fee based on approximately 20 product types, 3 trade types and 2 member types.

Please note variable fees are charged based on percentage of underlying product.

The Korea Exchange Fee Schedule is not available on the website. Also, fee waivers are not announced or posted on the website.

## Hong Kong Exchange and Clearing Ltd.

The Hong Kong trading fees and commissions schedule is based upon exchange fees based on 12 product types, 3 fee types and negotiated commissions.

Hong Kong Exchange and Clearing Ltd. fee schedule and fee waivers are available on their website [www.hkex.com.hk](http://www.hkex.com.hk).

## Transaction Fee Survey

Our experienced management consulting team developed a Transaction Fee Survey to help gauge the current futures industry climate. With the help of the FIA Exchange Fee Subcommittee, we sent the survey to the following firms:

- ADM Investor Services
- Barclays Capital Inc.
- Bear, Stearns & Co. Inc.
- Calyon Financial Inc.
- Citigroup Global Markets Inc.
- Credit Suisse Securities (USA), LLC
- Deutsche Bank Securities Inc.
- Fimat USA, LLC
- Goldman, Sachs & Co.
- HSBC Securities (USA) Inc.
- J. P. Morgan Futures Inc.
- Lehman Brothers Inc.
- MF Global Inc.
- Merrill Lynch Pierce Fenner & Smith Inc.
- Morgan Stanley
- Penson GHCO
- Prudential Bache Commodities, LLC
- Rosenthal Collins Group
- UBS

The Transaction Fee Survey consisted of the below questions:

1. With the complexity of fee schedules, regular modifications of fee rates and levels and reduced time windows to recapture fee adjustments, what challenges/roadblocks/investment needed to manage these fees have been created within the FCM to help monitor transaction fees?
2. With the onset of electronic trading and straight through processing (STP), has a FCMs ability to control transaction fees been enhanced or hindered? Give examples and/or explanations for either
3. What new processes within your FCM have been instituted to monitor transaction fees? Expound on the process or processes
4. What are your top five lists of on-going transaction fee issues? Expound on the issues and what fixes would be needed to alleviate them?

Based on the detailed survey responses received from the abovementioned FCMs (survey responses are catalogued in the Appendix), 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 systems 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 reviewing the background Information along with selected data analysis, 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 abovementioned recommendations, next steps toward implementation of the recommendations could entail the following:

- FIA Chicago and FIA Futures Services Divisions formed a working group of FCMs, Back Office Service Providers and ISVs as a take away from the 2008 Planning Session 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.
- From the working group's review of the recommendations and prioritized Plan of Action, develop an Executive Summary to distribute at Boca 2008 to the FIA Parent Board.

## Conclusion

Based on the review of the selected data analysis, our review of selected Exchange and Clearing Fee Schedules, our compilation of responses received from the transaction fee survey and recommendations brought forth from reviewing and analyzing the transaction survey response's, here is the Top Five "Issues" List that the FIA Chicago and Futures Services Division will bring forth to the FIA Parent Board for further discussion and dialogue with global derivatives, futures and commodities market participants (Exchanges, Clearing Organizations, Back Office Services Provides and ISVs):

- 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
- Registration of electronic trading requirements established by Exchanges (user IDs, operator IDs, terminal IDs, TAG 50s, etc.) to ensure proper transaction fee charged FCM
- Limitations in Back Office Service Providers system's to charge client the proper transaction fee (manual calculations)
- Lack of availability of Transaction Fee Schedules from Exchanges (either on website or in-house staff), lack of timely and efficient notification from Exchanges when transaction fees are updated, lack of trade data files available to FCM from Exchanges (reconciliation tool) and time constraints on FCM to request transaction fee rebates
- Lack of availability of membership updates from Exchanges