

Upholding market quality: the responsibilities of being the reference market

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By definition, a reference market is the trading place that pools the most liquidity in a specific instrument or index. In the wake of MiFID II and the ongoing market fragmentation, reference markets have gained even more importance as protectors of market quality. Take Xetra for example, a fully regulated exchange offering the highest degree of pre-trade and post-trade transparency – and the undisputed reference market for all German blue-chips. Being the most liquid market for DAX index constituents, the order book depth on Xetra is more than three times the order book depth the most successful competitor



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can offer. To ensure – and maintain – liquidity this deep, Deutsche Börse has decided to engage in a trial run that starts early October 2016, whereby Deutsche Börse will launch a new Liquidity Provision scheme that will be made available for liquidity providers. The scheme will not only be applicable to direct members of Xetra but also to indirect participants.

Fully MIFID II-compliant yet market-impact-free block trading on Xetra

One of the most important tasks of a reference market is offering market participants who want to trade large volumes of securities a convincing alternative to dark trading. In order to attract order flow and facilitate block trading without undesired market impact, Deutsche Börse introduced the innovative Volume Discovery Order on Xetra. The underlying logic of this order type is based upon the iceberg order, but with dramatically improved

execution probability at Xetra MidPoint. Given that a significant proportion of the Xetra liquidity pool is made up of Iceberg Orders of which roughly 43% are Large in Scale (LIS) upon order entry, the

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probability of execution is enhanced. For block trading in ETFs, another asset domain where Xetra leads in Europe with a market share of 31 percent, Deutsche Börse offers the Xetra Quote Request facility, which allows for a market-neutral on-exchange execution of large ETF and ETP orders including CCP clearing.

Services offered by a reference market should be reference, too

Right from the start, Deutsche Börse has made continuous efforts

to make its prime trading platform a reference market in every respect: a complete service chain from order routing, trading and clearing down to settlement ensuring additional cost-efficiency

for market participants, as well as effective elimination of counterparty risk by providing a central counterparty, just to name a few. It is this blend of quantitative and qualitative factors that will ensure that Xetra will continue to fulfill its responsibilities as a reference market, and to cater to the overall pan-European market quality. ■

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